

# CL GROUP (HOLDINGS) LIMITED 昌利(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 8098



LISTING BY WAY OF  
PLACING

Sponsor



VC CAPITAL LIMITED  
滙盈融資有限公司

Sole Bookrunner and Lead Manager



VC BROKERAGE LIMITED  
滙盈證券有限公司

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## IMPORTANT

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

### CL GROUP (HOLDINGS) LIMITED

昌利 (控股) 有限公司

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

### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING OF SHARES

**Number of Placing Shares** : 250,000,000 Placing Shares  
**Maximum Placing Price** : HK\$0.495 per Placing Share (payable in full  
upon application, plus brokerage fee of 1%,  
SFC transaction levy of 0.003% and Stock  
Exchange trading fee of 0.005%)  
**Nominal value** : HK\$0.01 per Share  
**GEM stock code** : 8098

#### Sponsor



VC CAPITAL LIMITED  
滙盈融資有限公司

#### Sole Bookrunner and Lead Manager



VC BROKERAGE LIMITED  
滙盈證券有限公司

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents in this prospectus. A copy of this prospectus having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Placing Price is expected to be fixed by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date, which is currently scheduled on or before Wednesday, 2 March 2011. The Placing Price will not be more than HK\$0.495 per Share and is expected to be not less than HK\$0.480 per Share. If the Company and the Lead Manager (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by that date or such later date as agreed by the Company and the Lead Manager (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will not proceed.

The obligations of the Underwriters under the Underwriting Agreement to subscribe for, and to procure placees for the subscription for the Placing Shares, are subject to termination by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth in the paragraph under "Grounds for termination" under the section headed "Underwriters" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

28 February 2011

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## EXPECTED TIMETABLE

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(Note 1)

Price Determination Date on or before (Note 2) . . . . . Wednesday, 2 March 2011

Announcement of the Placing Price and the level of indication  
of interest in the Placing to be published on the Exchange Website  
at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website  
at [www.cheongleesec.com.hk](http://www.cheongleesec.com.hk) on or about (Note 3) . . . . . Monday, 7 March 2011

Allotment of Placing Shares to placees on or about . . . . . Monday, 7 March 2011

Deposit of share certificates for the Placing Shares  
into CCASS on (Note 4) . . . . . Monday, 7 March 2011

Dealings in Shares on GEM to commence  
at 9:00 a.m. on . . . . . Tuesday, 8 March 2011

*Notes:*

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates.
2. The Price Determination Date is expected to be on or before 2 March 2011. If, for any reason, the Placing Price is not agreed by that date, or such later date as agreed by the Company and the Lead Manager (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will not proceed.
3. None of the Company's website or any of the information contained in the Company's website forms part of this prospectus.
4. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Underwriters and/or the placing agents. Share certificates for the Placing Shares to be distributed via CCASS will be deposited into CCASS on or about Monday, 7 March 2011 for credit to the respective CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts designated by the Underwriters, the placing agents, the placees or their agents, as the case may be. The Company will not issue any temporary documents of title.
5. If there is any change to the above expected timetable, the Company will make appropriate announcement at the Exchange Website.
6. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. on the Listing Date.

Details of the structure of the Placing, including the conditions thereto, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Lead Manager, any of the Underwriters or any of their respective directors, officers, employees, agents, representatives or affiliates or any other persons or parties involved in the Placing.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.*

### BUSINESSES

The Group carries out its business through the Company's wholly-owned subsidiary, Cheong Lee, which is a corporation licensed under the SFO to conduct Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities. It is principally engaged in the provision of (i) securities, futures and options broking and trading; and (ii) placing and underwriting services. The Group also provides ancillary services including application for new issues and nominee services such as collection of cash and scrip dividends. The Group's income mainly comprises: (i) commission income arising from the broking business of securities and futures dealing, which is recognised on a trade-date basis; (ii) underwriting commission income, sub-underwriting commission income, placing commission and related handling fee, which are recognised when the shares are allotted to the placees; (iii) interest income from IPO financing to its clients; and (iv) handling service fees and dividend collection fees, which are recognised when the agreed services have been provided. The Group currently operates one office.

Cheong Lee is a Constituency B Exchange Participant and competes mainly with local small and medium sized brokerage firms of Category B in Hong Kong. In 2009, according to the information provided to the Company by the Stock Exchange, its position amongst the Exchange Participants was 22 out of 454 and its market share was approximately 1.25% based on trading fee, transaction levy and investor compensation levy (if applicable). As at the Latest Practicable Date, the Group held the following licences, certificates and participantship to carry on the business activities as described in this prospectus. Each of the licences, certificates and participantship does not specify an expiry date.

<b>Licence/certificate/participantship</b>	<b>Date of issue/admission/ re-issue/renewal</b>
Licence under SFO to carry on Types 1 (dealing in securities) and 4 (advising on securities) regulated activities	24 November 2005
Licence under SFO to carry on Types 2 (dealing in futures contracts) and 5 (advising on futures contracts) regulated activities	27 August 2009
Stock Exchange Trading Right Certificate	11 February 2008
Stock Exchange Participant Certificate	11 February 2008
HKSCC Direct Clearing Participantship	24 November 2005
Futures Exchange Trading Right Certificate	12 October 2009
Futures Exchange Participant Certificate	12 October 2009
HKCC Participant Certificate	12 October 2009

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## SUMMARY

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The Directors confirmed, and the legal advisers of the Company as to Hong Kong law advised, that the Group obtained all the necessary licences and participantships which are required to carry on the Group's activities as set out in this prospectus as at the Latest Practicable Date. Since its establishment and as confirmed by the Directors, Cheong Lee has been able to obtain its relevant licences and participantships; and has not failed/received any objection from the SFC or other relevant competent authorities during renewal of licenses and participantships. All staff members currently performing regulated activities are properly registered under the SFO as either Licensed Representatives or Responsible Officers.

### **Securities brokerage business**

The Group provides brokerage services to clients for trading in securities listed on the Stock Exchange. According to the information from the Stock Exchange, Cheong Lee was classified as a Constituency B Exchange Participant in the years 2008 and 2009 and in the six-month period ended 30 June 2010; and transaction fee and levy collected by Cheong Lee represented approximately 0.963% of the total of the industry as at 30 June 2010. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the total value of transactions in relation to dealing in securities, other than placing and underwriting, by Cheong Lee represented approximately 1.5%, 2.4% and 1.9% of the total trading value of securities on the Stock Exchange, respectively.

Clients may place orders to the Group for securities trading through telephone calls or the Group's Internet platform or on-site at its office premises through the BSS. As at the Latest Practicable Date, the Group charged its clients a fee at a range of between 0.01% and 0.25% of transaction value (subject to a minimum charge) for securities trading orders, which is determined based on the client's transaction value and regardless of whether orders are placed by means of telephone, the Group's Internet trading platform or on-site at its office premises. For individual clients with high trading volume who trade on-site and/or through telephone, a commission scheme whereby the client will be charged either by fixed commission or by 0.02% of the transaction value plus HK\$1,000, whichever is the lower.

For the five months ended 31 August 2010, the average utilisation rate of securities trading capacity of the Group in terms of throttle usage was approximately 1.2% calculated based on 382,752 orders placed in total divided by the Group's trading capacity of approximately 31,881,600 orders (which is product of 12 transaction orders per second and 2,656,800 trading seconds given its 12 throttle rates subscribed from the Stock Exchange and on the assumptions of 4.5 trading hours each day and 164 trade days).

For each of the two years ended 31 March 2010 and the five months ended 31 August 2010, commission and brokerage derived from securities trading accounted for approximately 73.3%, 40.8% and 45.6% of the Group's total turnover respectively.

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## SUMMARY

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For the two years ended 31 March 2010 and the five months ended 31 August 2010, transaction value and commission income of the Group contributed by securities dealing transaction of (i) Ms. Au, the Controlling Shareholder, and her associates; (ii) the Directors; (iii) in-house employees; and (iv) account executives for themselves are set out as below:

	Year ended 31 March 2009	2010	Five months ended 31 August 2010
<b>Ms. Au and her associates</b>			
Value of transactions ( <i>million</i> )	HK\$205,162.6	HK\$229,368.8	HK\$28,772.3
Commission income ( <i>million</i> )	HK\$12.4	HK\$8.9	HK\$1.6
Approximate percentage to the Group's total value of transactions	93.1%	57.0%	24.6%
Approximate percentage to the Group's total commission income from securities dealings	80.2%	29.8%	15.8%
<b>Directors</b>			
Value of transactions	–	HK\$40,680.0	–
Commission income	–	HK\$150.0	–
Approximate percentage to the Group's total value of transactions	N/A	0.00001%	N/A
Approximate percentage to the Group's total commission income from securities dealings	N/A	0.0005%	N/A
<b>In-house employees</b>			
Value of transactions ( <i>million</i> )	HK\$6.8	HK\$16.8	HK\$2.6
Commission income	HK\$8,588.0	HK\$20,823.0	HK\$3,818.0
Approximate percentage to the Group's total value of transactions	0.003%	0.004%	0.002%
Approximate percentage to the Group's total commission income from securities dealings	0.056%	0.070%	0.038%
<b>Account executives</b>			
Value of transactions ( <i>million</i> )	HK\$41.6	HK\$47.4	HK\$32.5
Commission income	HK\$42,490.0	HK\$76,636.0	HK\$46,223.5
Approximate percentage to the Group's total value of transactions	0.019%	0.012%	0.028%
Approximate percentage to the Group's total commission income from securities dealings	0.276%	0.259%	0.456%

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## SUMMARY

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### **Futures brokerage business**

The Group also provides brokerage services to clients for trading in futures and options, such as HSI futures and options and mini-HSI futures and options, on the Futures Exchange since January 2010.

Clients may place orders to the Group for futures trades through telephone calls or the Group's Internet platform or on-site at its office premises through the OAPI. During the Track Record Period, the Group charged its clients at fixed amount in the range from HK\$8 to HK\$100 per contract for trading of futures or options regardless of the method of placing orders, which is determined based on the nature of futures or options and/or whether it is a day trade or overnight trade. As confirmed by the Directors, the fee range has been adjusted to HK\$3 to HK\$100 per contract since October 2010.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, commission and brokerage fees from dealing in futures and options contracts accounted for nil, approximately 1.8% and 3.0% of the Group's total turnover respectively.

### **Placing and underwriting services**

The Group acts as an underwriter or a sub-underwriter or a placing agent or a sub-placing agent in IPOs and placing of existing and/or new shares and/or convertible bonds of companies listed on the Stock Exchange or other stock exchange or shareholders of companies listed on the Stock Exchange. The placing or underwriting commission charged by the Group is subject to negotiation with the company concerned and is generally in line with market practice.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group generated commission income of approximately HK\$0.3 million, HK\$32.3 million and HK\$8.2 million, representing approximately 1.2%, 44.0% and 36.7% of the Group's total turnover, from 2, 32 and 12 fund-raising activities involving placing and/or underwriting amount of approximately HK\$35.8 million, HK\$1,231.6 million and HK\$388.5 million respectively. Revenue generated from the fund-raising activities participated by the Group on underwritten basis accounted for 100.0%, approximately 2.4% and nil of the total placing and underwriting commission income of the Group respectively. Revenue generated from the fund-raising activities participated by the Group on best effort basis accounted for nil, approximately 97.6% and 100.0% of the total placing and underwriting commission income of the Group respectively.

### **Financing**

The Group provides financing for applications of shares in connection with IPOs and derives interest income from its clients as a result. During the Track Record Period, the Group entered into framework agreements with several banks in Hong Kong to facilitate financing for applications of shares made by itself or its clients in connection with IPOs.

Formal agreements will be entered into with the bank(s) each time when a loan is advanced and the Group will normally be required to pledge a deposit with the bank and subject to an interest rate for drawing down of loans. In turn, clients will repay the principal amount and higher interests to the Group for its arrangement of funding. As at the Latest Practicable Date, the Group had no outstanding amount of such bank loans.

## SUMMARY

For the two years ended 31 March 2010 and the five months ended 31 August 2010, interest income derived from the Group's IPO financing business accounted for nil, approximately 0.41% and 0.01% of the Group's total turnover respectively. The Group has not made any provision for bad debts in relation to IPO financing during the Track Record Period.

The Group also plans to develop margin financing activities to allow flexibility to clients by providing funds directly to them for purchasing securities on a margin basis. It intends to enter into the margin financing business in Hong Kong in March 2011 after Cheong Lee notifying the SFC in writing of its engagement in the margin financing business and provided the SFC with certain related documents for reference. Details of the business strategies of the Group to enter into the new margin financing business are set out in the paragraphs headed "Business strategies" and "Implementation plans" under the section headed "Future plans and prospects" in this prospectus.

### Commission and fee

Charging basis (subject to adjustments after arm's length negotiation with clients) of major services provided by the Group for the two years ended 31 March 2010 and the five months ended 31 August 2010 are set out as below:

	2009	Year ended 31 March 2010	Five months ended 31 August 2010
Securities brokerage commission	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower
Futures brokerage commission	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100
Underwriting commission	0.25% – 4%	1% – 4%	n/a (Note 1)
Sub – underwriting commission	1% – 4%	n/a (Note 2)	n/a (Note 1)
Placing commission and related handling service fees	n/a (Note 3)	1% – 4%	1% – 4%
IPO financing interest	1% – 3%	n/a (Note 4)	1% – 3%
Handling services fees (including services fees for handling IPO applications, transmission and chats of funds, reprinting invoices, refund cheques, stamp duty for bought and sold notes and real time quotations)	Fixed charge on one time basis or on monthly basis depending on nature of handling services	Fixed charge on one time basis or on monthly basis depending on nature of handling services	Fixed charge on one time basis or on monthly basis depending on nature of handling services
Dividend collection fees	0.3% of the dividend amount subject to a minimum charge	0.3% of the dividend amount subject to a minimum charge	0.3% of the dividend amount subject to a minimum charge

- Notes: 1. There were only placing activities conducted on best effort basis by the Group for the five months ended 31 August 2010.
2. No sub-underwriting income was generated by the Group during the year ended 31 March 2010.
3. No placing income was generated by the Group during the year ended 31 March 2009.
4. No IPO financing conducted by the Group during the year ended 31 March 2010.

# SUMMARY

## CLIENT MIX

Clients of the Group's brokerage business comprise corporate and retail clients from Hong Kong and the PRC. Clients of the Group's underwriting and placing business are companies listed on the Main Board or GEM or other stock exchange or shareholders of companies listed on the Stock Exchange.

With its competitive brokerage commission rates and efficient services, the Group's client base has experienced a significant growth since 2008. 18, 24 and 28 new brokerage clients were originated by the account executives; and 55, 155 and 57 new brokerage clients were either originated by the in-house employees or walk in clients or clients referred by existing clients respectively for the two years ended 31 March 2010 and the five months ended 31 August 2010. A client that is originated by an account executive or in-house employee will be managed and served by the respective account executive or in-house employee. For walk-in clients and clients referred by the existing clients, such accounts will be managed and served by in-house employees. All new clients of the placing and underwriting business during the Track Record Period were originated by in-house employees. Movements of the Group's retail and corporate clients including number of new trading accounts opened and trading accounts closed during the Track Record Period and the number of the Group's corporate clients which the Group had provided placing and underwriting services during the Track Record Period are shown as below:

	Year ended 31 March				Five months ended		From 1 September 2010 to the Latest Practicable Date	
	2009		2010		31 August 2010			
	Number of retail clients	Number of corporate clients	Number of retail clients	Number of corporate clients	Number of retail clients	Number of corporate clients	Number of retail clients	Number of corporate clients
Securities trading								
– at the beginning of the financial year/period	81	21	145	30	276	56	324	64
– new accounts opened	64	9	135	26	50	10	136	25
– accounts closed	–	–	(4)	–	(2)	(2)	(13)	(2)
– at the end of the financial year/period	<u>145</u>	<u>30</u>	<u>276</u>	<u>56</u>	<u>324</u>	<u>64</u>	<u>447</u>	<u>87</u>
Futures trading								
– at the beginning of the financial year/period	–	–	–	–	10	8	35	8
– new accounts opened	–	–	10	8	25	–	8	2
– accounts closed	–	–	–	–	–	–	–	–
– at the end of the financial year/period	<u>–</u>	<u>–</u>	<u>10</u>	<u>8</u>	<u>35</u>	<u>8</u>	<u>43</u>	<u>10</u>
Placing and underwriting								
– at the end of the financial year/period	<u>–</u>	<u>2</u>	<u>–</u>	<u>18</u>	<u>–</u>	<u>9</u>	<u>–</u>	<u>11</u>

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## SUMMARY

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*Notes:*

1. If a client has both a securities trading account and a futures trading account with the Group, this client will be reflected as two clients in the table above and in the other relevant part(s) of this prospectus. For the two years ended 31 March 2010 and the five months ended 31 August 2010, there were nil, 18 and 43 clients having both securities trading account and futures trading account with Cheong Lee.
2. Number of clients for the placing and underwriting business shown in the above table represents the number of clients to which the Group had provided placing and underwriting services during the relevant financial period.

Breakdown on the Group's clients including both retail and corporate clients of brokerage business segments by transaction frequency, transaction volume and commission income during the Track Record Period are shown as below:

**Number of clients by transaction frequency**

	Year ended 31 March			Five months ended 31 August 2010
	2009	2010		
No purchase and/or sale of securities/futures transaction	80	145	No purchase and/or sale of securities/futures transaction	268
At least 1 purchase and/or sale of securities/futures transaction (i.e. at least 1 transaction per annum on average)	8	7	At least 1 purchase and/or sale of securities/futures transaction	35
At least 2 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per half year on average)	14	23		–
At least 4 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per quarter on average)	28	56		–
At least 12 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per month on average)	45	119	At least 5 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per month on average during the period)	128
	<u>175</u>	<u>350</u>		<u>431</u>

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## SUMMARY

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### Number of clients by transaction volume

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
Less than or equal to HK\$100,000	120	219	325
HK\$100,001 to HK\$500,000	13	19	26
HK\$500,001 to HK\$1,000,000	5	12	11
HK\$1,000,001 to HK\$5,000,000	11	25	24
HK\$5,000,001 to HK\$10,000,000	4	21	8
Over HK\$10,000,000	22	54	37
	<u>175</u>	<u>350</u>	<u>431</u>

### Number of clients by commission income

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
Less than or equal to HK\$10,000	149	275	382
HK\$10,001 to HK\$50,000	11	39	30
HK\$50,001 to HK\$100,000	5	7	4
HK\$100,001 to HK\$500,000	6	20	10
Over HK\$500,000	4	9	5
	<u>175</u>	<u>350</u>	<u>431</u>

## SUMMARY

### FINANCIAL INFORMATION

The following table sets out the combined statements of comprehensive income of the Group during the Track Record Period:

	Year ended 31 March		Five months ended 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
	(Audited)	(Audited)	(Unaudited)	(Audited)
Total value of transactions	<u>220,489,741,628</u>	<u>402,321,072,198</u>	<u>191,666,695,425</u>	<u>116,875,744,173</u>
Turnover	21,069,422	73,320,765	30,656,084	22,230,602
Net other (loss) income	(1,783,823)	1,855,694	432,211	(180,285)
Administrative expenses	(15,171,732)	(28,724,167)	(9,658,604)	(11,249,514)
Finance costs	<u>(60)</u>	<u>(184,536)</u>	<u>(27,945)</u>	<u>–</u>
Profit before taxation	4,113,807	46,267,756	21,401,746	10,800,803
Income tax expenses	<u>(674,832)</u>	<u>(7,609,382)</u>	<u>(3,521,898)</u>	<u>(1,878,173)</u>
Profit for the year/period attributable to the owners of the Company	<u><u>3,438,975</u></u>	<u><u>38,658,374</u></u>	<u><u>17,879,848</u></u>	<u><u>8,922,630</u></u>
Other comprehensive income				
Net change in fair value on available-for-sale financial assets	<u>–</u>	<u>1,970,116</u>	<u>–</u>	<u>(55,580)</u>
Total comprehensive income for the year/period attributable to the owners of the Company	<u><u>3,438,975</u></u>	<u><u>40,628,490</u></u>	<u><u>17,879,848</u></u>	<u><u>8,867,050</u></u>
Dividends ( <i>Note</i> )	<u><u>852,000</u></u>	<u><u>15,008,000</u></u>	<u><u>5,000,000</u></u>	<u><u>–</u></u>

*Note:* Pursuant to the resolutions passed at the respective board meetings of Cheong Lee on 18 September 2008, 9 July 2009, 4 January 2010 and 6 October 2010, Cheong Lee declared and paid an interim dividend of HK\$5.68 per Share amounting to HK\$852,000 for the year ended 31 March 2009, quarterly and final dividends in the aggregate amount of HK\$15,008,000 for the year ended 31 March 2010 and an interim dividend of HK\$90 per Share amounting to HK\$36,000,000 as at 6 October 2010.

## SUMMARY

The Group's audited combined financial information is included in the Accountants' Report as set out in Appendix I to this prospectus.

A breakdown on turnover by major services provided by the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010 is set out as below:

	Year ended 31 March				Five months ended 31 August			
	2009 <i>Turnover</i> <i>(in HK\$)</i>	%	2010 <i>Turnover</i> <i>(in HK\$)</i>	%	2009 <i>Turnover</i> <i>(in HK\$)</i> <i>(unaudited)</i>	%	2010 <i>Turnover</i> <i>(in HK\$)</i>	%
Commission and brokerage fees from securities dealings on the Stock Exchange	15,442,656	73.3	29,941,974	40.8	13,567,071	44.3	10,127,250	45.6
Commission and brokerage fees on dealing in futures contracts	–	n/a	1,317,406	1.8	–	n/a	668,040	3.0
Placing and underwriting commission	262,781	1.2	32,288,270	44.0	12,701,250	41.4	8,157,040	36.7
Clearing and settlement fee	4,479,671	21.3	8,219,488	11.2	3,906,995	12.7	2,405,122	10.8
Handling service and dividend collection fees	375,288	1.8	457,195	0.7	209,363	0.7	173,560	0.8
Interest income from authorised financial institutions/clients/others	509,026	2.4	1,096,432	1.5	271,405	0.9	699,590	3.1
Total turnover	<u>21,069,422</u>	<u>100.0</u>	<u>73,320,765</u>	<u>100.0</u>	<u>30,656,084</u>	<u>100.0</u>	<u>22,230,602</u>	<u>100.0</u>

Commission and brokerage from securities dealings generated by the Group increased by approximately 93.9% from approximately HK\$15.4 million to HK\$29.9 million for the year ended 31 March 2010 along with the gradual recovery of the global economy from financial tsunami. Commissions and brokerage generated from this sector as well as the placing and underwriting commission for the five months ended 31 August 2010 both reduced, by approximately 25.4% and 35.8% to approximately HK\$10.1 million and HK\$8.2 million respectively due to less active securities market as compared to the corresponding period in 2009. Whilst commission and brokerage from securities dealings remains to be a stable source of income to the Group given its solid securities clientele developed over the years, the Group strives to expand its placing and underwriting business and as a result, placing and underwriting commission increased largely during the Track Record Period without sacrificing the securities brokerage business.

During the Track Record Period, turnover of the Group generated from transactions with Ms. Au, the Controlling Shareholder, and her associates accounted for approximately 58.8%, 12.2% and 7.2% of the total turnover for the two years ended 31 March 2010 and the five months ended 31 August 2010 respectively. The Group's reliance on the business from Ms. Au and her associates has been decreasing.

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## SUMMARY

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### **Financial performance for the nine months ended 31 December 2010 and the possible impact of certain non-recurring expenses to financial performance**

#### ***Financial results for the nine months ended 31 December 2010***

According to the unaudited management accounts of the Group for the nine months ended 31 December 2010, the Group's unaudited turnover and profit before taxation were both higher than those in the corresponding period of the previous year.

The increase in unaudited turnover of the Group for the nine months ended 31 December 2010 was mainly attributable to the increase in unaudited placing and underwriting commission for the nine months ended 31 December 2010. The unaudited total value of transactions carried out by the Group for the nine months ended 31 December 2010 decreased as compared with the same for the corresponding period in 2009. Despite there was a decrease in the unaudited total value of transactions, as a result of the increase in fixed commission charged to certain clients with high trading volume, the Group's unaudited commission and brokerage income from securities dealings for the nine months ended 31 December 2010 maintained at the similar level as compared with the same for the corresponding period in 2009. Since the Group only commenced the futures brokerage business in January 2010, no commission and brokerage income from futures dealings was recognised by the Group for the nine months ended 31 December 2009. In addition, since the Group had participated in more fund-raising activities with a higher aggregate fund-raising amount for the nine months ended 31 December 2010, the unaudited placing and underwriting commission recognised by the Group was higher than the same for the corresponding period in 2009. As a result of the decrease in unaudited total value of transactions carried out for the nine months ended 31 December 2010, the corresponding unaudited clearing and settlement fee received by the Group also decreased as compared with the same for the corresponding period in 2009.

Based on the unaudited management accounts of the Group for the nine months ended 31 December 2010, there was an increase in the unaudited administrative expenses of the Group as compared with the same for the corresponding period in 2009 which was mainly attributable to the increase in the unaudited staff costs and commission paid. Since the Group had not obtained any IPO loans from banks for the nine months ended 31 December 2010, no finance cost was recognised by the Group. As a result of the above, the unaudited net profits before taxation of the Group for the nine months ended 31 December 2010 was higher than the same for the corresponding period in 2009.

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## SUMMARY

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### ***Financial position as at 31 December 2010***

According to the unaudited management accounts of the Group for the nine months ended 31 December 2010, the Group's non-current assets as at 31 December 2010 maintained at the similar level as that of 31 August 2010. The only item in non-current liabilities as at 31 December 2010 was deferred tax liabilities and the amount was similar to that as at 31 August 2010.

The Group's net current assets as at 31 December 2010 decreased as compared to that of 31 August 2010. However, if excluding amount due to a shareholder of HK\$20.0 million, being the only new component to the current liabilities of the Group, there would be an increase in net current assets. As confirmed by the Company, full amount of the amount due to a shareholder had been settled in February 2011.

The current assets of the Group as at 31 December 2010 were made up by the same components as at 31 August 2010, being trade receivables, other receivables, deposits and prepayments, financial assets at fair value through profit or loss and bank balances and cash. Trade receivables represented one-day position of transaction value of customers' orders for securities/futures dealings, and the amount as at 31 December 2010 increased as compared to that of 31 August 2010. Other receivables, deposits and prepayments as at 31 December 2010 increased mainly due to the increase in progress payment for IPO expenses, and bank balances and cash increased as a result of the increase of clients' monies in trust accounts of the Group and the Group's cash in its general account.

The current liabilities of the Group as at 31 December 2010 were made up by the same components as at 31 August 2010, being trade payables, other payables and accruals and tax payables except the amount due to a shareholder of HK\$20.0 million mentioned above. If excluding clients' monies in trust accounts, the Group's trade payables would only comprise the one-day position of transaction value of customers' orders which increased as at 31 December 2010 as compared to that of 31 August 2010 and was in line with the increase in trade receivables. Other payables and accruals as at 31 December 2010 increased as a result of deposits from customers for subscription of a convertible bond issued in January 2011 where Cheong Lee was acting as a placing agent.

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## SUMMARY

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### ***Possible impact of certain non-recurring expenses to financial performance***

Notwithstanding the financial performance of the Group for the nine months ended 31 December 2010 mentioned above, the Group's financial results would be affected by certain non-recurring expenses including the expenses in relation to the Listing.

The estimated expenses in relation to the Listing are approximately HK\$11.7 million, of which approximately HK\$2.9 million is directly attributable to the issue of new Shares under the Placing and is expected to be accounted for as a deduction from equity. The remaining listing expenses of approximately HK\$8.8 million are expected to be charged to the unaudited statements of comprehensive income of the Group for the year ending 31 March 2011. Expenses in relation to the Listing are non-recurring and were not incurred during the Track Record Period.

Accordingly, the Board wishes to inform the Shareholders and potential investors that the Group's financial results for the year ending 31 March 2011 would be affected by the estimated expenses in relation to the Listing.

It should be noted that the growth of turnover and profit before taxation mentioned above are based on the unaudited figures for the nine months ended 31 December 2010 which may not be indicative of the full year results for the year ending 31 March 2011. As set out in the section headed "Risk factors" in this prospectus, the Group's business and financial performance may be affected by a number of factors, including amongst all, the risk factors under the paragraphs headed "Risks associated with new margin financing business", "Volatility of the securities and futures markets", "Risk associated with underwriting and placing business", and "Fluctuations of net profit margin and change in major revenue drivers" in the section headed "Risk factors" in this prospectus.

As disclosed in the paragraph headed "Client mix" under the "Business" section of this prospectus, number of securities trade retail and corporate clients of the Group had been increased from 324 and 64 respectively as at 31 August 2010 to 447 and 87 respectively as at the Latest Practicable Date. Save as disclosed in the sections headed "Risk factors" and "Financial information" in this prospectus, there are no other trade factors or risks associated which the Group anticipates could materially affect its profits.

### **No material adverse change**

Save as disclosed in the paragraph headed "Financial performance for the nine months ended 31 December 2010 and the possible impact of certain non-recurring expenses to financial performance" of this section, the Directors confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group and no event had occurred that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus since 31 August 2010, being the date to which the latest audited financial statements of the Group were made up, and during the period from 1 September 2010 to the Latest Practicable Date (both dates inclusive).

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## SUMMARY

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### HISTORY AND DEVELOPMENT

The following summarises the Company's (and/or its predecessor's) development since incorporation and its respective achievements:

<b>Date</b>	<b>Major development and achievements</b>
November 2004	Cheong Lee was incorporated under the former name "Cheong Lee Securities Company, Limited"
November 2005	Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO
June 2007	Ms. Au acquired 90% of the issued share capital of Cheong Lee from the original shareholder, being an Independent Third Party
September 2007	Cheong Lee tapped into the underwriting and placing business
December 2007	Ms. Au acquired the remaining issued share capital of Cheong Lee
January 2008	Name changed to "Cheong Lee Securities Limited"
February 2008	Cheong Lee obtained the re-issued Exchange Participant certificate and Exchange trading right from the Stock Exchange after the change of name
April – May 2008	Cheong Lee increased its throttle rate from 3 to 5
April 2009	Cheong Lee established the equity capital market department
August 2009	Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 2 (dealing in futures contracts) and 5 (advising on futures contracts) regulated activities under the SFO
October 2009	Cheong Lee was granted with the Futures Exchange Participant certificate and the Futures Exchange trading right from the Futures Exchange and the HKCC Participant certificate from HKCC
February – October 2009	Cheong Lee increased its throttle rate from 5 to 12
November 2009	A futures contract dealing system was installed to provide a platform for clients to conduct trades through the OAPI located at Cheong Lee's premises
September 2010	Cheong Lee increased its throttle rate further from 12 to 14

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## SUMMARY

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### COMPETITIVE STRENGTHS

The Directors are of the view that the Group generally has the following competitive advantages:

#### **Management experience and expertise**

The Group is managed by a team of experienced professionals who formulate corporate strategies, monitor compliance and day-to-day operations, and implement plans for business development. The management team comprises mainly Responsible Officers and persons with over five years of experience in the securities dealing and financial services industry. With the extensive experience and knowledge of the management team, the Group is able to react promptly to the changes of market conditions and implement suitable measures in accordance with changing credit risks. Please refer to the section headed “Directors, senior management and staff” of this prospectus for further details on the experience of the Directors and senior management.

#### **Well-established relationship with clients and expanding customer base**

The Group recognises that market reputation and clients’ confidence in its services are keys to success, which will enable the Group to attract new clients from the market and solicit client referrals from its existing clients. In this regard, the Group places great emphasis on winning customer loyalty by providing them with tailor made services, for instance, modifying computer screen interface for retrieving securities market information in accordance with clients’ requirements, and keeping clients abreast of market development by giving them access to real-time market information and price quotations from external securities market information service providers. With its continuous effort, the Group has successfully retained existing clients and attracted new clients and gradually developed a more diversified client base over the years.

#### **Solid platform for placing and underwriting business**

The Group’s placing and underwriting business can leverage on its extensive securities client network which comprises institutional investors and retail clients. It also maintains good relationships with other brokerage firms which may provide opportunities to the Group to act as sub-underwriters or sub-placing agents for various new issues and fund-raising exercises in the market. The Group has also successfully retained several companies listed on the Main Board or GEM or on other stock exchange or shareholders of companies listed on the Stock Exchange in its client base, such that they or their shareholders may consider appointing the Group as the placing agent, sub-placing agent, underwriter, or sub-underwriter when they have funding requirements.

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## SUMMARY

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### Advanced computer system and technology

The Group invests in the upgrading of its computer system to enhance the technological infrastructure to meet clients' increasing needs and in an attempt to stay ahead when technological upgrades for securities trading are introduced to the market. The Group has established stable and efficient online trading platform for its clients to access the securities market. Both its BSS and OAPI trading systems are equipped with powerful and advanced IT infrastructures, servers and terminals as well as tailor-made computer screen interfaces for retrieving securities market information to suit clients' different requirements.

### Capable professional

As at the Latest Practicable Date, the Group has 5 account executives serving 66 trading accounts and 7 in-house employees serving 521 trading accounts. The account executives carry out securities sales on behalf of Cheong Lee and serve clients of his/her own portfolio. Most of the Group's account executives are degree holders with over 1 to 6 years experience in the securities industry and have been with the Group for more than one year. The Group has regularly provided professional training to its account executives. The Directors believe that the solid client base is built up by the Group's account executives over the years. Movements of account executives of the Group during the Track Record Period are set out as below:

	Year ended 31 March		Five months ended	From 1 September 2010 to the Latest Practicable Date
	2009	2010	31 August 2010	
Number of account executives brought forward	1	9	10	9
New appointment	8	1	2	1
Leave ( <i>note</i> )	0	0	(3)	(5)
Number of account executives	9	10	9	5

*Note:* One account executive during the five months ended 31 August 2010 and one account executive during the period from 1 September 2010 to the Latest Practicable Date became an in-house employee of Cheong Lee.

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## SUMMARY

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### BUSINESS STRATEGIES

The Directors have developed the following business strategies:

#### **1. Entering into the new margin financing business**

The Group plans to develop margin financing activities to allow flexibility to clients by providing funds directly to them for purchasing securities on a margin basis. Under the SFO, if a company is licensed for Type 1 (dealing in securities) regulated activity, it needs not separately be licensed for Type 8 (securities margin financing) regulated activity to carry out securities margin financing for its clients. However, according to the current rules and regulations for margin financing activities, it would need to have a minimum paid-up share capital of HK\$10.0 million and a minimum liquid capital of HK\$3.0 million. Cheong Lee currently has a paid-up capital of HK\$40.0 million. The Group's liquid capital amounted to approximately HK\$18.5 million, HK\$53.3 million and HK\$59.8 million as at 31 March 2009, 31 March 2010 and 31 August 2010 respectively. Accordingly, the Group is permitted to engage in the margin financing business. Margin loans to clients of the Group will be secured by pledged securities listed on the Stock Exchange and/or cash deposits. The Group will regularly review the securities pledged by clients, update their respective margin ratio and communicate to clients. The margin ratio for each of the acceptable securities will generally be determined by the credit committee with reference to the margin ratio set by other financial institutions. The Group will also review the margin ratios when qualities of particular securities deteriorate rapidly.

#### **2. Maintaining and enhancing efficiency of trading platform**

The Group aims to provide customers with more efficient and feature-enhanced trading facilities, equipment, IT related/software solutions in a reliable, secured, convenient and cost effective manner. The Group will continue improving and upgrading its trading facilities in order to cope with changes in trading technologies and to cater for the increasing use of the Group's platform for securities and futures trading.

#### **3. Expanding client network**

The Group intends to further enlarge its client base, explore more opportunities for placing and underwriting business and expand its sales and marketing team. To cope with such expansion, it will recruit professional sales personnel, in particular, the equity capital market professional personnel from the market as well as provide professional training to fresh graduates who are ambitious in pursuing their career in the financial market.

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## SUMMARY

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### DILUTION EFFECT ON SHAREHOLDING

The Company has conditionally adopted the Share Option Schemes. As at the date of this prospectus, options to subscribe for 6,300,000 Shares have been granted under the Pre-IPO Share Option Scheme and no options have been granted under the Share Option Scheme. Following the granting of any options under the Share Option Schemes in the future and the issue of new Shares upon exercise of the options granted or may be granted under the Share Option Schemes, there will be an increase in the number of issued Shares. As such there may be a dilution or reduction of shareholding of the Shareholders which may also result in a dilution or reduction of the earnings per Share or net asset value per Share. Assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time, 6,300,000 new shares will be issued resulting a dilution effect of approximately 0.626% on the shareholdings of the Shareholders; and if the profit of the Group remains the same immediately before and after such issue, earnings per Share would be diluted by approximately 0.63%.

### PLACING STATISTICS

The Company has prepared the following placing statistics based on the respective Placing Prices of HK\$0.48 and HK\$0.495 per Share without taking into account the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee:

	<b>Based on the indicative Placing Price of HK\$0.48 per Share</b>	<b>Based on the indicative Placing Price of HK\$0.495 per Share</b>
Market capitalisation of the Shares <sup>(1)</sup>	HK\$480 million	HK\$495 million
Unaudited pro forma adjusted net tangible asset value per Share <sup>(2)</sup>	18.26 cents	18.62 cents

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## SUMMARY

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*Notes:*

- (1) The calculation of the market capitalisation upon completion of the Placing is based on the assumption that 1,000,000,000 Shares will be in issue and outstanding immediately following the Placing.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after the adjustments referred to in the paragraph headed “Unaudited pro forma statement of adjusted combined net tangible assets” under the section headed “Financial information” in this prospectus and on the basis of a total of 1,000,000,000 Shares in issue at the respective Placing Prices of HK\$0.48 and HK\$0.495 per Placing Share immediately following the Placing but takes no account of any new Shares which may be allotted and issued upon exercise of any options that were granted or may be granted under the Share Option Schemes, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed “Written resolutions of the sole Shareholder passed on 22 February 2011” under the section headed “Further information about the Company” in Appendix V to this prospectus.

### USE OF PROCEEDS

The Placing, after deducting underwriting commission and other expenses relating to the Placing payable by the Company and based on a Placing Price of HK\$0.4875, being the mid-point of the indicative Placing Price range of HK\$0.480 to HK\$0.495 per Placing Share, will be approximately HK\$106.5 million. The Directors presently intend that the net proceeds will be applied in the implementation of the business strategies including the new margin financing business as set out in the paragraph headed “Business strategies” under the section headed “Future plans and prospects” in this prospectus, details of which are as follows:

- as to approximately HK\$75.0 million (or approximately 70.4% of the net proceeds) for entering into the new margin financing business;
- as to approximately HK\$8.8 million (or approximately 8.3% of the net proceeds) for maintaining and enhancing efficiency of trading platform;
- as to approximately HK\$13.7 million (or approximately 12.9% of the net proceeds) for expanding client network; and
- as to approximately HK\$9.0 million (or approximately 8.4% of the net proceeds) for working capital of the Group.

If the Placing Price is set at the high-end of the indicative Placing Price range, being HK\$0.495 per Placing Share, the net proceeds from the Placing will increase by approximately HK\$1.9 million. The Company intends to apply the additional net proceeds for the above purposes on a pro-rata basis.

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## SUMMARY

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If the Placing Price is set at the low-end of the indicative Placing Price range, being HK\$0.48 per Placing Share, the net proceeds of the Placing will decrease by approximately HK\$1.8 million. In such case, the Company intends to reduce the allocation of such net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately required for or applied to the above purposes, the Company may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in the Company's best interests.

The Company will make an appropriate announcement and comply with the requirements of the GEM Listing Rules if there is any change to the above proposed use of proceeds.

### RISK FACTORS

Investment in the Shares are subject to a number of risk factors which can be categorised into: (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to conducting business in Hong Kong; (iv) risks relating to the Placing; and (v) risks associated with this prospectus. A summary of these risks are set out below. A detailed discussion of these risk factors is set out in the section headed "Risk factors" in this prospectus.

#### Risks relating to the Group

- Risks associated with new margin financing business
- Volatility of the securities and futures markets
- Risk associated with underwriting and placing business
- Fluctuations of net profit margin and change in major revenue drivers
- Reliance on Controlling Shareholder
- Risks associated with error trading
- Credit and settlement risks
- Risks associated with IPO financing business
- Reliance on key personnel

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## SUMMARY

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- Risks associated with the internal control system
- High level of liquidity required
- Reliance on computer network infrastructure
- Dividend policy
- No assurance that future business plans will materialise

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

- Competition
- Regulations

### **Risks relating to conducting business in Hong Kong**

- Macroeconomic considerations
- Political and economic risks associated with conducting business in Hong Kong

### **Risks relating to Placing**

- Termination of the Underwriting Agreement
- Marketability and possible price and trading volume volatility of the Shares
- Dilution of the Shareholders' equity interests
- Dilution effect and impact of exercise of options granted under the Share Option Schemes

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## SUMMARY

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### **Risks associated with this prospectus**

- Certain statistics and facts in this prospectus have not been independently verified
- Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information
- Sale or perceived sale of substantial amounts of Shares in the public market after the Placing could materially and adversely affect the prevailing market price of the Shares
- Investors may experience difficulties in enforcing Shareholder's rights because the Company is incorporated in the Cayman Islands

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## DEFINITIONS

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

“Articles”	the articles of association of the Company adopted on 22 February 2011 and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the same meaning ascribed to it in the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Bookrunner” or “Lead Manager”	VC Brokerage Limited (滙盈證券有限公司), the sole bookrunner and lead manager in respect of the Placing
“Business Day”	a day (other than a Saturday or Sunday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“BVI Holding Company”	Zillion Profit Limited, a company incorporated in BVI on 22 April 2010 with limited liability and is wholly owned by Ms. Au
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Cheong Lee”	Cheong Lee Securities Limited (昌利證券有限公司) (formerly known as Cheong Lee Securities Company, Limited (昌利證券有限公司)), a company incorporated in Hong Kong with limited liability on 10 November 2004, a corporation licensed under the SFO to carry on Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities
“Cheong Lee BVI”	CL Group (BVI) Limited, a company incorporated in the BVI with limited liability on 15 September 2010 and a directly wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Code of Conduct”	Code of Conduct for Persons Licensed by or Registered with the SFC (證券及期貨事務監察委員會持牌人或註冊人操守準則) issued by the SFC in May 2006
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (開曼群島法例第22章《公司法》*)
“Companies Ordinance”	the Companies Ordinance (公司條例) (Chapter 32 of the Laws of Hong Kong (香港法例)) as amended, supplemented or otherwise modified from time to time
“Company”	CL Group (Holdings) Limited (昌利(控股)有限公司), a company incorporated in the Cayman Islands on 27 August 2010 as an exempted company with limited liability
“connected person(s)”	has the same meaning ascribed to it in the GEM Listing Rules
“connected transactions”	the transactions stipulated and specified in Rule 20.13 of the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and in the context of the Company, means BVI Holding Company and Ms. Au
“DCASS”	the Derivatives Clearing and Settlement System, the clearing and settlement system for derivative products of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Exchange Participant(s)”	a person who, in accordance with the rules of HKEx, or whose name is entered in a register kept by HKEx as a person who, may trade through HKEx or the Stock Exchange
“Exchange Website”	the Internet website at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> operated by the Stock Exchange

\* For identification purpose only

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## DEFINITIONS

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“Futures Exchange”	Hong Kong Futures Exchange Limited (香港期貨交易所有限公司)
“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
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM (香港聯合交易所有限公司創業板證券上市規則) (as amended, supplemented or otherwise modified from time to time)
“Group”	the Company together with its subsidiaries and, in respect of the period before the Company became the holding company of its present subsidiaries, the companies that are the present subsidiaries of the Company
“HK\$” and “cent(s)”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“HKCC”	HKFE Clearing Corporation Limited (香港期貨結算有限公司)
“HKEx”	Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司)
“HKICPA”	Hong Kong Institute of Certified Public Accountants (香港會計師公會)
“HKMA”	Hong Kong Monetary Authority (香港金融管理局)
“HKSCC”	Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)
“HIBOR”	Hong Kong Interbank Offering Rate

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) which is/(are) independent of and not connected with any of the directors, chief executive, or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Latest Practicable Date”	21 February 2011, being the latest practicable date for ascertaining certain information prior to the printing of this prospectus
“licensed person”	a licensed person (which has the same meaning ascribed to it in the SFO)
“Licensed Representative(s)”	a licensed representative (which has the same meaning as ascribed to it in the SFO)
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares on the GEM first commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (香港聯合交易所有限公司證券上市規則) (as amended, supplemented or otherwise modified) from time to time)
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company adopted on 27 August 2010 and as amended from time to time
“Ms. Au”	Ms. Au Suet Ming Clarea (歐雪明), a Hong Kong resident and the Controlling Shareholder
“Ms. Yu”	Ms. Yu Linda (余蓮達), an executive Director
“Nomination Committee”	the nomination committee of the Board

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## DEFINITIONS

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“Non-trading Participant(s)”	has the meaning ascribed thereto in the fact books published by the Stock Exchange
“Placing”	the conditional placing by the Underwriters on behalf of the Company of the Placing Shares for cash at the Placing Price, as further described under the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Price”	the placing price per Placing Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.495 and not less than HK\$0.480, such price to be agreed upon by the Company and the Lead Manager (for itself and on behalf of the Underwriters) on or before the Price Determination Date
“Placing Shares”	250,000,000 new Shares being offered by the Company for subscription at the Placing Price under the Placing
“PRC” or “China”	the People’s Republic of China which shall, for the purpose of this prospectus, exclude Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	the Pre-IPO share option scheme conditionally approved and adopted by the Company on 22 February 2011, the principal terms of which are summarised in the section headed “Pre-IPO Share Option Scheme” in Appendix V to this prospectus
“Price Determination Date”	the date expected to be on or around 2 March 2011, or such later date as agreed by the Company and the Lead Manager (for itself and on behalf of the Underwriters), on which the Placing Price is fixed by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) for the purpose of the Placing
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the corporate reorganisation arrangements undergone by the Group in preparation for the Listing, details of which are set out in the paragraph headed “Corporate reorganisation” in Appendix V to this prospectus

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## DEFINITIONS

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“Responsible Officer(s)”	a responsible officer (which has the same meaning ascribed to it in the SFO)
“SEHOC”	the SEHK Option Clearing House Limited (聯交所期權結算所有限公司)
“SFC”	the Securities and Futures Commission of Hong Kong (證券及期貨事務監察委員會)
“SFO”	the Securities and Futures Ordinance (證券及期貨條例) (Chapter 571 of the Laws of Hong Kong (香港法例))
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 22 February 2011, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix V to this prospectus
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Share Option Scheme
“Sponsor”	VC Capital, the sponsor to the Company in respect of the Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers (公司收購及合併守則) (as amended, supplemented or otherwise modified) from time to time
“Track Record Period”	the two years ended 31 March 2010 and the five months ended 31 August 2010

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## DEFINITIONS

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“Trading Participant(s)”	has the meaning ascribed thereto in the fact books published by the Stock Exchange
“Underwriters”	the underwriters of the Placing named in the paragraph headed “Underwriters” in the section headed “Underwriters” of this prospectus
“Underwriting Agreement”	the conditional underwriting agreement dated 28 February 2011 and entered into amongst the Company, the executive Directors, the Controlling Shareholders, the Sponsor, the Lead Manager and the Underwriters, brief particulars of which are set out in the section headed “Underwriters” in this prospectus
“U.S.”	the United States of America
“US\$” or “U.S. dollars”	U.S. dollars, the lawful currency of U.S.
“VC Capital”	VC Capital Limited (滙盈融資有限公司), a company incorporated in Hong Kong with limited liability, a corporation licensed under the SFO to carry on Type 6 (advising on corporate finance) regulated activity and the Sponsor
“%”	per cent.

*Unless otherwise specified, for the purpose of this prospectus, amounts denominated in US\$ are translated into HK\$ at the rate of HK\$7.8 = US\$1.00. Such conversion is for the purposes of indication and reference only and should not be construed as any representation that any amount in U.S.\$ could have been or could be converted at the above rate.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

“AMS”	Automatic Order Matching and Execution System, the first generation of electronic stock trading system implemented by the Stock Exchange in 1993
“AMS/3”	the third generation of electronic stock trading system implemented by HKEx in October 2000
“BSS”	the Broker Supplied System, being a front office solution either developed in-house by the Exchange Participant or a third-party software package acquired from commercial vendors, enabling the Exchange Participant to connect its trading facilities to the Open Gateway to conduct trading
“FRR”	Securities and Futures (Financial Resources) Rules (證券及期貨(財政資源)規則) (Chapter 571N of the Laws of Hong Kong (香港法例))
“HKATS”	Hong Kong Automatic Trading System, an electronic trading system of the Futures Exchange
“HSI”	Hang Seng Index
“IPO(s)”	initial public offering(s) and listing(s) of shares on the Stock Exchange
“IT”	information technology
“OAPI”	the Omnet Application Programming Interface connectivity provided by DCASS that allows participants to connect their own back office applications and third party back office applications on a host-to-host basis
“OG” or “Open Gateway”	a Windows-based device provided by HKEx and installed at the Exchange Participants’ office to facilitate electronic interface of the AMS/3 with front office systems operated by the Exchange Participant
“T + 1”	one trading day from the transaction day
“T + 2”	two trading days from the transaction day
“throttle” or “throttle rate”	the throughput rate of an order into the trading system at one order per second. Exchange Participants with Open Gateway may apply for additional throttle rates in integral multiples of one order per second

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## RISK FACTORS

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*Potential investors of the Placing Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company. If any of the possible events as described below, or any other risk factors or uncertainties that the Company is unaware of, materialises, the Group's business, financial position and prospects could be materially and adversely affected and the market price of the Placing Shares could fall significantly.*

*This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions which involve risks and uncertainties. The Group's actual results may differ materially from those as discussed in this prospectus. Factors that could contribute to such differences are set out below as well as in other parts in this prospectus.*

### RISKS RELATING TO THE GROUP

#### Risks associated with new margin financing business

The Group intends to enter into the margin financing business in Hong Kong in March 2011 after Cheong Lee notified the SFC in writing of its engagement in the margin financing business and provided the SFC with certain related documents for reference. The Group will obtain securities listed on the Stock Exchange 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. 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. Margin financing is vulnerable to stock price volatility and the liquidity of the relevant securities that are pledged in securities for loans. It is the intention of Cheong Lee that the maximum tolerance level would be up to 70% of the market value of clients' portfolio. The Responsible Officer will continue to closely monitor the account until the margin position has been ratified. In the event that a client is unable to meet a margin call, the Group may 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.

#### Volatility of the securities and futures markets

The Group generates income from the provision of brokerage services for securities, futures and options trading and the placing and underwriting services, which are highly dependent on the performance of the financial market in Hong Kong. The financial market in Hong Kong could be directly affected by the global and local economic and socio-political conditions and the investment sentiment. Any sudden downturn in global or local economic environment, severe fluctuations in global or local markets or economic sentiment may adversely affect the performance of Hong Kong's financial market as a whole, by a decrease in securities and futures trading and capital raising activities, which may adversely affect the Group's business and financial performance.

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## RISK FACTORS

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The global financial market has been volatile since the outbreak of the financial tsunami in September 2008. Sustainability of economic recovery if any, is uncertain. As the Group's revenue is highly dependent on the general economic sentiment and the health of the financial market, if the economic sentiment shifts or if there is another downturn in global economy, demand for the Group's services may decrease, and there is no assurance that income derived from the Group's principal businesses can be sustained.

### **Risk associated with underwriting and placing business**

Underwriting (including sub-underwriting) and placing commission accounted for approximately 1.2%, 44.0% and 36.7% of the Group's total turnover for each of the two years ended 31 March 2010 and the five months ended 31 August 2010 respectively.

During the Track Record Period, the Group's fund-raising businesses for clients are mainly conducted on a best effort basis, but the Group may also be required to conduct such businesses on an underwritten basis in accordance with clients' requirements. The Group's participations in IPOs as underwriter or sub-underwriter are mainly on fully underwritten basis, whereby the Group will be obliged to take up any of the unsubscribed portion of its underwriting commitment, whereas for other fund-raising activities such as acting as placing agent for placing of existing and/or net shares and/or convertible bonds of companies listed on the Stock Exchange are primarily on best effort basis, whereby securities will be placed by the Group to interested parties and the Group will not be obliged to take up any of the unsubscribed securities. Revenue generated from the fund-raising activities participated by the Group on underwritten basis accounted for 100%, approximately 2.4% and nil of the total placing and underwriting commission income of the Group respectively. Revenue generated from the fund-raising activities participated by the Group on best effort basis accounted for nil, approximately 97.6% and 100.0% of the total placing and underwriting commission income of the Group respectively. The Directors confirmed that commissions for fund-raising activities engaged by the Group on fully underwritten basis and best effort basis are both determined based on arm's length negotiation with reference to the then prevailing market condition. Commissions are deducted and retained by the Group before remitting the proceeds to the relevant clients. The Directors consider that securities underwritten by the Group could be undersubscribed as a result of volatile or unfavourable market conditions, in which case the Group, as the underwriter/sub-underwriter/placing agent, may be required to take up the unsubscribed securities, and its financial position could be adversely affected if the underwritten securities so taken up by the Group become illiquid and/or their market values drop. In the case of fund-raising for clients on a best effort basis, if the securities are undersubscribed or if market conditions become volatile, the entire fund-raising exercise may be called off and the Group may not be able to generate commission income from such fund-raising exercise.

The Directors confirmed that during the Track Record Period, there was no call off or under-subscription of fund-raising exercise participated by the Group which result in any loss or claim to the Group.

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## RISK FACTORS

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### **Fluctuations of net profit margin and change in major revenue drivers**

During the Track Record Period, the Group's net profit margin fluctuated and recorded at approximately 16.3%, 52.7% and 40.1% respectively. Fluctuation of the Group's net profit margin may be a result of the change in mix of its major revenue drivers. The Group's turnover relating to placing and underwriting commission accounted for approximately 1.2%, 44.0% and 36.7% respectively; whereas its turnover relating to securities brokerage commission accounted for approximately 73.3%, 40.8% and 45.6% respectively for the two years ended 31 March 2010 and the five months ended 31 August 2010. In general, commission rate charged by the Group for its placing and underwriting business ranged from 0.25% to 4% which is higher than the commission rate charged for its securities brokerage business of approximately 0.01% to 0.25% of transaction value (subject to a minimum charge) or either a fixed commission or 0.02% of transaction value plus HK\$1,000 whichever is the lower.

Percentage of placing and underwriting commission generated by the Group to its total turnover is highly dependent on number of placing and underwriting exercises it participated and/or size of fund it raised. The Directors confirmed that this relies more or less on external factors which are beyond the Group's control, such as the number and the size of IPOs launched/to be launched in the market; and whether the secondary market for fund-raising exercises is active under the prevailing atmosphere in financial market. In light of the reliance on these external factors and the potential non-recurring nature of the placing and underwriting commission generated by the Group, there is no assurance that performance of the Group's placing and underwriting business will not be affected by such external factors, and its net profit margin will not fluctuate as a result.

### **Reliance on Controlling Shareholder**

During the Track Record Period, turnover of the Group generated from transactions with Ms. Au, the Controlling Shareholder, and her associates accounted for approximately 58.8%, 12.2% and 7.2% of the total turnover for the two years ended 31 March 2010 and the five months ended 31 August 2010 respectively. Investors should be aware that the Group's financial performance and profitability may be affected if Ms. Au, the Controlling Shareholder, and her associates do not continue to use, or if any of them significantly reduces his/her use of the financial services provided by the Group.

Securities brokerage commission income contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately 6.5%, 26.5% and 38.8% of the total securities brokerage commission income of the Group respectively. Futures brokerage commission income contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately nil, 0.5% and nil of the total securities brokerage commission income of the Group respectively. Placing and underwriting commission contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately 1.9%, 62.9% and 30.4% of the total placing and underwriting commission income of the Group respectively. There is no assurance that Ms. Au will continue to introduce securities/futures brokerage business and placing and underwriting business to the Group. In the event she failed to do so, the Group's financial performance and profitability may be adversely affected.

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## RISK FACTORS

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### **Risks associated with error trading**

The Group could bear losses from error trades arising from system error or human error in data inputting or recording clients' instructions. Upon discovery of any error trade, the Group has to take immediate action to close out error trade positions and bear losses from such error trades. Number of error trade occurred was 0, 3 and 1 respectively during the Track Record Period. The Directors confirmed that all of the error trade during the Track Record Period were due to human error and has been resolved by buying relevant number of shares in market to ratify the error position which had not resulted in any profit/loss to the Group for the year ended 31 March 2009; but resulted in loss to the Group of approximately HK\$1,429.9 for the year ended 31 March 2010, representing approximately 0.005% of the commission and brokerage from securities dealing of the Group; and profit of approximately HK\$159.0 for the five months ended 31 August 2010, representing approximately 0.002% of the commission and brokerage from securities dealing of the Group. For the period from 1 September 2010 up to the Latest Practicable Date, losses from error trades amounted to approximately HK\$10,482.7. During the Track Record Period and up to the Latest Practicable Date, the Group was not subject to any regulatory fines or penalties as a result of error trades.

Investors should be aware that the Group's profitability may be adversely affected by error trades, if error trades cannot be effectively prevented or controlled by the Group.

### **Credit and settlement risks**

Securities brokerage clients of the Group are required to settle their securities transactions within T+2. If a client fails to do so, the Group will be required to settle the same on behalf of its client with HKSCC with its own funds, which could have an impact on the cash flow position of the Group. Clients' failure to settle the securities transactions within T+2 amounted to approximately HK\$683,510.6, HK\$48,075.4 and HK\$5,016,581.0 as at 31 March 2009, 31 March 2010 and 31 August 2010 respectively. Of the aforesaid three amounts, approximately HK\$4,681.2, HK\$8,420.6 and HK\$9,476.2 remained unsettled as at the Latest Practicable Date. The Group will review the unsettled amounts at year end to consider if any provision or write-off is necessary.

Clients of futures transactions are required to maintain the minimum margin deposit with the Group from time to time as determined by the Futures Exchange. The Group may impose additional margin requirement on its futures clients in a volatile market; and in the event that a client fails to meet a margin call, the Group is entitled to close out the futures or options contract. If the customer's margin deposit with the Group is insufficient to cover the loss position arising from closing out of the futures or options contract, the Group would be exposed to the risk of being unable to recover such shortfall from the client, particularly in times of a volatile market. During the Track Record Period, no bad debt provision for amounts due from clients in relation to futures or options contracts was made by the Group. The Directors confirmed that during the Track Record Period, the Group had not encountered any insufficiency of clients' margin deposit for covering loss positions.

## RISK FACTORS

### Risks associated with IPO financing business

The Group entered into framework agreements with several banks in Hong Kong to facilitate financing for applications of shares made by itself or its clients in connection with IPOs. Loans advanced by the Group for its own or on behalf of its clients together with interests incurred are payable by the Group. The Group normally obtains liquid assets and/or cash deposits as collateral for providing IPO financing to its clients. However, if relevant clients fail to settle the outstanding loan amount with the Group, the Group will be required to repay the loans with its own funds, and if the Group is unable to settle the loan amount with the banks on time, it will be exposed to the risk of bearing default interests and loss of charged deposits when the banks demand for repayment. During the Track Record Period, no bad debt provision for amounts due from cash clients in relation to IPO financing was made by the Group. The Directors confirmed that during the Track Record Period, there was no clients' failure in settling the outstanding loan due to the Group.

### Reliance on key personnel

Each of the four regulated activities of the Group requires a minimum of two Responsible Officers approved by the SFC. For each regulated activity, the Group is required to have at least one Responsible Officer available at all times to supervise the business. The same individual may be appointed to be a Responsible Officer for more than one regulated activity provided that he/she is fit and proper to be so appointed and there is no conflict in the roles assumed. As at the Latest Practicable Date, for each of Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities, Cheong Lee had three, two, three and two Responsible Officers respectively. The following table sets out the identities of the Responsible Officers for each of the Group's regulated businesses during the Track Record Period:

	Year ended 31 March		Five months ended	From 1 September
	2009	2010	31 August 2010	2010 to the Latest Practicable Date
Type 1 (dealing in securities) regulated activity	Chow Ka Man (resigned on 7 April 2008)	Man Kam Cheuk (since 28 October 2009)	Man Kam Cheuk (resigned on 30 June 2010)	–
	Lam Wing Hi (since 29 May 2008)	Lam Wing Hi	Lam Wing Hi (resigned on 9 July 2010)	–
	Yu Linda (since 13 May 2008)	Yu Linda	Yu Linda	Yu Linda
	Chau Yueh Jen	Chau Yueh Jen (resigned on 16 January 2010)	Kwok Kin Chung (since 30 June 2010)	Kwok Kin Chung
	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali

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## RISK FACTORS

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	2009	Year ended 31 March 2010	Five months ended 31 August 2010	From 1 September 2010 to the Latest Practicable Date
Type 2 (dealing in futures contracts) regulated activity		Lau Ka Lung Ali (since 27 August 2009)	Lau Ka Lung Ali	Lau Ka Lung Ali
		Man Kam Cheuk (since 28 October 2009)	Man Kam Cheuk (resigned on 30 June 2010)	–
		–	Lam Wing Hi (from 23 June 2010 to 9 July 2010)	–
			Kwok Kin Chung (since 30 June 2010)	Kwok Kin Chung
Type 4 (advising on securities) regulated activity	Chow Ka Man (resigned on 7 April 2008)	Yu Linda (since 8 July 2009)	Yu Linda	Yu Linda
	Lam Wing Hi (since 23 September 2008)	Lam Wing Hi	Lam Wing Hi (resigned on 9 July 2010)	–
	Chau Yueh Jen	Chau Yueh Jen (resigned on 16 January 2010)	Kwok Kin Chung (since 14 September 2010)	Kwok Kin Chung
	Fung Man Chun	Fung Man Chun	Fung Man Chun	Fung Man Chun (resigned on 1 December 2010)
	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali
Type 5 (advising on futures contracts) regulated activity		Lau Ka Lung Ali (since 27 August 2009)	Lau Ka Lung Ali	Lau Ka Lung Ali
			Kwok Kin Chung (since 14 September 2010)	Kwok Kin Chung

In the event that Cheong Lee fails to meet the Responsible Officers requirement under the SFO due to resignation of some or all of these Responsible Officers at the same time without immediate and adequate replacement, its licensed corporation status could be adversely affected, thus jeopardizing the Group's business operation.

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## RISK FACTORS

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### **Risk associated with the internal control system**

There are areas within the Group's risk management and internal control systems that may require constant monitoring and further improvement. The Group's businesses and prospects may be materially and adversely affected if its efforts to maintain these systems prove to be ineffective or inadequate.

Any deficiencies in the Group's risk management and internal control systems and practices could adversely affect its ability to timely and accurately record, process, summarise and report financial and other data, as well as adversely affect its efficiency, undermine the effectiveness of its risk management process and increase the potential likelihood for financial reporting errors and non-compliance with rules and regulations. The Group has adopted initiatives, policies and procedures to improve its risk management and internal control systems and address any possible deficiencies, as detailed in the paragraph headed "Internal control" in the "Business" section in this prospectus. Nevertheless, there is no assurance that the risk management and internal control systems of the Group are adequate or effective notwithstanding the efforts of the Group, and any failure to address any internal control matters and other deficiencies could result in losses to the Group. Furthermore, if the Group's compliance function is inadequate or ineffective in managing the risks related to its existing and/or expanding products and services, the Group's financial condition and results of operations could be materially and adversely affected.

Businesses operated by the Group are regulated by the SFC and it is expected that its employees shall comply with the relevant rules under the SFO. However, owing to the nature of the Group's business, the Group cannot rule out the possibility that its employees may in the performance of their duties fail to remain licensed or fail to comply with the applicable laws, rules and regulations or commit offences under the SFO which may include but not limited to market manipulation, false trading and price rigging. Such activities or any allegation of such activities could have an adverse effect on the Group's reputation.

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

A licensed corporation shall at all times maintain paid-up share capital and liquid capital not less than the specified amounts according to the FRR. For Cheong Lee, the required paid-up share capital is HK\$5.0 million for its existing business activities (and HK\$10.0 million if it were to undertake margin financing activities), and the required liquid capital is the higher of HK\$3.0 million or 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. In order to comply with the FRR, the Group must maintain a relevant level of liquidity at all times. Failing to meet the capital requirements may cause the SFC to take disciplinary actions against the Group, which may adversely affect the Group's operations and performance. As at the Latest Practicable Date, Cheong Lee maintained paid-up share capital of HK\$40.0 million and a level of liquid capital above the minimum requirement under the FRR. The Group's liquid capital amounted to approximately HK\$18.5 million, HK\$53.3 million and HK\$59.8 million as at 31 March 2009, 31 March 2010 and 31 August 2010 respectively.

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## RISK FACTORS

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During the Track Record Period, Cheong Lee has not failed in maintaining the required paid-up share capital and liquid capital. The executive Directors confirmed that the liquid capital position of Cheong Lee was calculated and monitored by the Responsible Officers of Cheong Lee on a daily basis, and Cheong Lee was able to comply with the FRR requirements at all times, in particular, on a post-underwritten or sub-underwritten or placing deal basis during the Track Record Period.

### **Reliance on computer network infrastructure**

The success of the Group depends, in part, upon its ability to develop, upgrade and maintain a reliable and effective computer system and network infrastructure. In the event that the Group fails to expand or adapt its network infrastructure to meet additional demands or its customers' changing requirements on a timely basis, at commercially reasonable costs, or at all, its business, financial condition and results of operations may be adversely affected.

Demand for the Group's Internet based services has been increasing. Failure to maintain sufficient bandwidth capacity in its network connections to meet the growing demand will in general cause slowing down of services offered by the Group and will have a negative impact on the market reputation of the Group, which may result in loss of existing and potential customers to its competitors.

In addition, the network infrastructure used by the Group for its business may be vulnerable to computer viruses, hackers, power outage or other disruptive actions which may cause data corruption and interruptions, delay or cessation in the services provided through the Group's securities trading facilities and thus, could have an 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 system of the Group. In the event that clients' confidential information is stolen or misused, the Group may be exposed to the risks of litigation and possible liability.

During the Track Record Period, the Wanchai area, where the Group's office is located, had experienced one incident of power outage lasting for five minutes which caused interruption to the Group's computerised trading system. It did not cause any significant impact on the Group's business operations or incurred financial losses for the Group. However, there is no assurance that any future power outage, even of very limited duration, will not cause an adverse impact on the Group's business operations. Currently, the Group relies on two IT vendors to support the operation and maintenance of its trading platform. If the trading platform of the Group collapsed or if one or both of the IT vendors is/are unable to deliver relevant services to the Group for whatever reasons, it will take the Group certain time to find the replacement(s) and may incur additional cost to the Group for setting up server(s) that can facilitate the operation of the trading platform provided by the new IT vendor(s).

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## **RISK FACTORS**

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### **Dividend policy**

Pursuant to the resolutions passed at the respective board meetings of Cheong Lee on 18 September 2008, 9 July 2009, 4 January 2010 and 6 October 2010, Cheong Lee declared and paid an interim dividend of HK\$5.68 per Share amounting to HK\$852,000 for the year ended 31 March 2009, quarterly and final dividends in the aggregate amount of HK\$15,008,000 for the year ended 31 March 2010 and an interim dividend of HK\$90 per Share amounting to HK\$36,000,000 as at 6 October 2010. The Company may distribute dividends by way of cash or by other means that the Directors consider appropriate and which are allowable under the applicable rules and regulations. The declaration, payment and the amount of dividends will be subject to the discretion of the Directors, and will depend on, among other things, the Group's operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as the Directors may deem relevant. Hence the dividends declared and paid by the Company in the past, in particular during the Track Record Period, should not be regarded as indicative of the Company's future dividends.

### **No assurance that future business plans will materialise**

The future business plans of the Group are based on current intentions of the Group and some of them are at conceptual or preliminary stages and no detailed feasibility studies have been conducted. These business plans and intentions are based on assumptions as to the occurrence of certain future events, which may or may not materialise, and the real situation might differ materially.

## **RISKS RELATING TO THE INDUSTRY**

### **Competition**

The financial services industry in Hong Kong is characterised by a large number of market participants. As at 31 January 2011, there were a total of 540 Exchange Participants on the Stock Exchange and 220 Futures Exchange Participants on the Futures Exchange respectively. As at 31 December 2010, there were total of 836, 246, 838 and 132 licensed corporations engaging in Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities respectively. New participants may enter into the industry provided that they satisfy the FRR, possess relevant professionals with the appropriate skills and have obtained the requisite licences and permits.

Apart from securities brokerage firms with similar target clients and similar range of services, the Group also faces competition from local banks and multinational financial institutions including banks and investment banks with global network and a local presence in Hong Kong which have greater financial and other resources.

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## RISK FACTORS

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Online securities and futures trading and financial information portals have become more common, thus intensifying the competition for online based customers while competition in the market of the traditional brokerage business remains fierce. The Group launched its Internet platform for securities trading in June 2008. It competes with both the existing market players and new market entrants, who injected or will inject large amount of resources on improving their Internet trading technologies to sustain market positions. In the event the Group's online trading technology lags behind other competitors or it is not able to compete effectively in the field, its business, financial position, results of operations and prospects could be adversely affected.

### Regulations

The Group's operations are highly regulated and its businesses, financial condition, results of operations and prospects may be materially and adversely affected by any regulatory changes.

The Hong Kong regulatory regime for the financial services industry has from time to time implemented changes in the rules and regulations that may be applicable to the Group (including the SFO which includes the FRR), the Listing Rules, the GEM Listing Rules, the Takeovers Code and the Code of Share Repurchases (股份購回守則). Some of these changes may result in additional restrictions on the Group's activities. In addition, failure to comply with applicable rules and regulations may result in fines, or restrictions on the Group's activities or, in serious cases, suspension or revocation of some or all of the Group's business licences or criminal liability. In the event that any of the above occurs, the Group's businesses and financial performance would be materially and adversely affected. The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, Cheong Lee has not been subject to any review by the SFC or other regulatory authorities. Apart from Mr. Lau Ka Lung Ali, an executive Director, who was reprimanded and fined by the SFC and details of which are mentioned in "Directors, senior management and staff" of this prospectus, the Directors confirm that there has been no public disciplinary action or reprimand by any regulatory authority against Cheong Lee, its directors or any of its staff during the Track Record Period and up to the Latest Practicable Date.

Furthermore, Cheong Lee is required to remain licensed with the relevant regulatory authorities including, without limitation, as a licensed corporation under the SFO with the SFC in Hong Kong. In this respect, Cheong Lee has 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 it remains 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. Any misconduct, omissions, failures or breaches of any of the officers or employees may also create negative publicity on the Group and will adversely affect its business and performance.

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## **RISK FACTORS**

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### **RISKS RELATING TO CONDUCTING BUSINESS IN HONG KONG**

#### **Macroeconomic considerations**

Since all of the Group's revenue is derived from Hong Kong, its business and results of operations are related directly to the overall performance of Hong Kong economy which is influenced by factors including, inter alia, local and international economic and political conditions, general market sentiment, changes in the regulatory environment and fluctuations in the interest rates.

Financial difficulties and economic conditions in the U.S., Europe and other regions since September 2008 have caused significant economic downturn. The economy of Hong Kong was also affected as a result. Sustainability of economic recovery if any, is uncertain. Moreover, the future prospects of Hong Kong are linked to the economic, social and political development of the PRC and any unfavorable disruption to such development could have a corresponding effect on the Hong Kong's economy.

#### **Political and economic risks associated with conducting business in Hong Kong**

Hong Kong is a special administrative region of the PRC and the Basic Law (基本法), Hong Kong's constitutional document, reflects the basic policies of the PRC regarding Hong Kong which provides Hong Kong with a high degree of autonomy and executive, legislative and independent judicial powers, including that of final adjudication under the principle of "one country, two systems". However, the economic, political and legal environment in Hong Kong could change and the Group's business and operations may be affected should there be any material adverse change in the stability and development of the economy, and political and legal environment of Hong Kong.

### **RISKS RELATING TO PLACING**

#### **Termination of the Underwriting Agreement**

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by the Lead Manager (for itself and on behalf of the Underwriters) giving notice in writing to the Company upon the occurrence of any of the events stated in the sub-section headed "Grounds for termination" under the section headed "Underwriters" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

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## RISK FACTORS

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### **Marketability and possible price and trading volume volatility of the Shares**

The Listing is by way of the Placing and the Shares have not been listed or allotted on any stock exchange or open market before completion of the Placing. There is no assurance that there will be an active trading market of the Shares on GEM upon Listing. In addition, the market price of the Shares to be traded on the GEM may differ from the Placing Price and investors should not treat the Placing Price as an indicator of the market price of the Shares to be traded on GEM.

Upon Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the income, profit, and cash flow of the Group, new products, services and/or investments of the Group, changes of senior management of the Group, and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on the Group and on the trading volume and market price of the Shares.

### **Dilution of the Shareholders' equity interests**

One of the benefits to the Company upon the Listing is the access to capital market and the Group may raise additional funds to finance future expansion of its business or operations or acquisitions. The Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of the Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Upon expiry of such six-month period, the Group may raise additional funds by way of issue of new equity or equity-linked securities of the Company and such fund-raising exercises may not be conducted on a pro-rata basis to existing Shareholders. As such, the shareholding of the then Shareholders may be reduced or diluted.

### **Dilution effect and impact of exercise of options granted under the Share Option Schemes**

The Company has conditionally adopted the Share Option Schemes. As at the Latest Practicable Date, options to subscribe for 6,300,000 Shares have been granted under the Pre-IPO Share Option Scheme and no options have been granted under the Share Option Scheme. Following the granting of any options under the Share Option Schemes in the future and the issue of new Shares upon exercise of the options granted or may be granted under the Share Options Schemes, there will be an increase in the number of issued Shares. As such there may be a dilution or reduction of shareholding of the Shareholders which may also result in a dilution or reduction of the earnings per Share or net asset value per Share. Assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time, 6,300,000 new shares will be issued resulting a dilution effect of approximately 0.626% on the shareholdings of the Shareholders; and if the profit of the Group remains the same immediately before and after such issue, earnings per Share would be diluted by 0.63%.

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## RISK FACTORS

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In addition, the fair value of the options to be granted to employees of the Group under the Share Option Schemes will be charged to the consolidated comprehensive income statement of the Group over the vesting periods of the options. The fair value of the options shall be determined on the date of granting of the options. Accordingly, the financial results and profitability of the Group may be adversely affected.

### **RISKS ASSOCIATED WITH THIS PROSPECTUS**

#### **Certain statistics and facts in this prospectus have not been independently verified**

This prospectus includes certain statistics and facts that have been extracted from government official sources and publications or other sources. The Company believes that the sources of these statistics and facts are appropriate sources for such statistics and facts and has taken reasonable care in extracting and reproducing such statistics and facts. The Company has no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. These statistics and facts have not been independently verified by the Company, the Sponsor, the Lead Manager, the Underwriters or any other party involved in the Placing and no representation is given as to their accuracy.

#### **Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information**

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of the Directors. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of the Group and the development of the environment in which the Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of the Group to be materially different from the anticipated financial results, performance or achievements of the Group expressed or implied by these statements. The actual financial results, performance or achievements of the Group may differ materially from those discussed in this prospectus.

#### **Sale or perceived sale of substantial amounts of Shares in the public market after the Placing could materially and adversely affect the prevailing market price of the Shares**

The Shares beneficially owned by the Controlling Shareholders are subject to a lock-up period under the GEM Listing Rules. There is no assurance that the Controlling Shareholders will not dispose of these Shares following the expiration of the lock-up period. Sale of substantial amounts of the Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares.

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## RISK FACTORS

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### **Investors may experience difficulties in enforcing Shareholder's rights because the Company is incorporated in the Cayman Islands**

The Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of the Company are governed by the Memorandum and Articles, the Cayman Companies Law and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against the Company and/or the Directors, actions by minority Shareholders and the fiduciary responsibilities of the Directors to the Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary responsibilities of the Directors under Cayman Islands laws may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors reside. In particular, the Cayman Islands have a less developed body of securities laws. As a result of all of the above, the Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of the Company, Directors or major Shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

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## **WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

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The Group has entered into certain transactions which would constitute continuing connected transactions that are subject to reporting, announcement and/or shareholders' approval requirements under the GEM Listing Rules after the Listing.

Details of such transactions, together with application for waivers from strict compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules, are set out in the section headed "Connected transactions" in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

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

Printed copies of this prospectus are available, for information purposes only, at the offices of (i) VC Capital Limited and VC Brokerage Limited at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong; (ii) SBI E2-Capital Securities Limited at Unit A2, 32nd Floor, United Centre, 95 Queensway, Hong Kong; and (iii) China Merchants Securities (HK) Co., Limited at 48th Floor, One Exchange Square, Central, Hong Kong after 4:00 p.m. on 28 February 2011 and thereafter during normal office hours from 9:00 a.m. to 5:00 p.m. from 1 March 2011 up to and including 8 March 2011.

### **INFORMATION ON THE PLACING**

This prospectus is published solely in connection with the Placing.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus, on the terms and subject to the conditions set out herein. No person is authorised in connection with the Placing to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Lead Manager, the Underwriters, and any of their respective directors, agents, employees or advisors or any other person involved in the Placing.

### **FULLY UNDERWRITTEN**

The 250,000,000 Placing Shares are offered by the Company by way of the Placing, which is sponsored by the Sponsor and is managed by the Lead Manager and is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriters and the underwriting arrangements is contained in the section headed "Underwriters" in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **DETERMINING OF THE PLACING PRICE**

The Placing Shares are being offered at the Placing Price which is expected to be determined by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on or around 2 March 2011, or such later time as may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and the Company. If the Lead Manager and the Company (for itself and behalf of the Underwriters) are unable to reach agreement on the Placing Price by Wednesday, 2 March 2011, the Placing will not proceed. For full information relating to fixing of the Placing Price, please refer to the section headed “Structure and conditions of the Placing” in this prospectus.

### **PLACING SHARES TO BE OFFERED IN HONG KONG ONLY**

Each person acquiring the Placing Shares will be required, and is deemed by his acquisition of the Placing Shares, to confirm that he is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus and that he is not acquiring, and has not been offered, any Placing Shares in circumstances that contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. Accordingly this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation. No invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Placing Shares.

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

### **APPLICATION FOR LISTING OF THE SHARES ON GEM**

The Company satisfies the requirements relating to continuity of ownership and control throughout the full financial year immediately preceding the Latest Practicable Date and up until the Listing Date under Rule 11.12A(2) of the GEM Listing Rules.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and which are to be issued pursuant to the Placing, and any Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Share Option Schemes. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of the Company must at all times be held by the public. A total of 250,000,000 Placing Shares, representing 25% of the enlarged issued share capital of the Company, will be in the hands of the public immediately following completion of the Placing and upon the Listing (without taking into account of any new Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Share Option Schemes).

No part of the Shares or the Company's loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, the Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of its Shares or loan capital on any other stock exchange other than the Stock Exchange.

The Shares are freely transferable.

Under Section 44B(1) of the Companies Ordinance, any allotment made in respect of any placing of the Placing Shares will be void if permission for the listing of the Shares on GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

All the Shares will be registered on the branch register of members of the Company in Hong Kong. Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder.

### STAMP DUTY

Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares will not be subject to the Cayman Islands stamp duty.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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It is emphasised that none of the Company, the Directors, the Sponsor, the Lead Manager, the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of the Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and compliance by the Company with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or such other date as HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS.

### **DEALINGS AND SETTLEMENT**

Dealings in the Shares on GEM are expected to commence on 8 March 2011.

The Shares will be traded in board lots of 5,000 Shares each.

The GEM stock code for the Shares is 8098.

The Company will not issue any temporary document of title.

### **STRUCTURE AND CONDITIONS OF THE PLACING**

Details of the structure and conditions of the Placing, are set out in the section headed “Structure and conditions of the Placing” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
LAU Ka Lung Ali (劉嘉隆)	Flat C, 34th Floor, Block 2 2 King San Path Kingston Terrace Tuen Mun New Territories Hong Kong	Chinese
KWOK Kin Chung (郭建聰)	2nd Floor 37 Tin Liu New Village Pak Lam Road Ma Wan New Territories Hong Kong	Chinese
LAU Kin Hon (劉建漢)	Flat A, 3rd Floor, Block 3 Braemar Hill Mansions 19 Braemar Hill Road North Point Hong Kong	Chinese
YU Linda (余蓮達)	Flat C, 18th Floor Cathay Lodge 125 Wanchai Road Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### *Independent non-executive Directors*

AU-YEUNG Tai Hong Rorce (歐陽泰康)	Flat B, 3rd Floor, Block 5 Cavendish Height Jardine's Lookout Hong Kong	Chinese
CHEE Kwok Wing Waymond (池國榮)	12A Grand Garden 8 Sai Wan Ho Street Sai Wan Ho Hong Kong	British
CHOY Wing Man (蔡詠雯)	Flat B, 17/F Hilary Court No. 63G Bonham Road Mid-Levels, Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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<b>Sponsor</b>	VC Capital Limited 28th Floor The Centrium 60 Wyndham Street Central Hong Kong
<b>Sole Bookrunner and Lead Manager</b>	VC Brokerage Limited 28th Floor The Centrium 60 Wyndham Street Central Hong Kong
<b>Co-Lead Manager</b>	SBI E2-Capital Securities Limited Unit A2, 32nd Floor United Centre 95 Queensway Hong Kong
<b>Underwriters</b>	VC Brokerage Limited 28th Floor The Centrium 60 Wyndham Street Central Hong Kong  SBI E2-Capital Securities Limited Unit A2, 32nd Floor United Centre 95 Queensway Hong Kong  China Merchants Securities (HK) Co., Limited 48th Floor One Exchange Square Central Hong Kong
<b>Legal advisers to the Company as to Hong Kong law</b>	Loong & Yeung Suites 2001-2005, 20th Floor Jardine House 1 Connaught Place Central Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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**Legal advisers to the Company as to  
Cayman Islands law**

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

**Legal advisers to the Sponsor and the  
Underwriters as to Hong Kong law**

Hastings & Co.  
5th Floor, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

**Auditors and reporting  
accountants**

HLM & Co.  
Certified Public Accountants  
Room 305, 3rd Floor  
Arion Commercial Centre  
2-12 Queen's Road West  
Hong Kong

**Property valuer**

BMI Appraisals Limited  
Suite 11-18, 31st Floor  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters, head office and principal place of business in Hong Kong</b>	Room 1106, 11th Floor Mass Mutual Tower 38 Gloucester Road Wanchai Hong Kong
<b>Authorised representatives</b>	LAU Kin Hon (劉建漢) Flat A, 3rd Floor, Block 3 Braemar Hill Mansions 19 Braemar Hill Road North Point Hong Kong  CHAN Kam Wah (陳錦華) Flat C, 20th Floor, Block 34 Laguna City Lam Tin Hong Kong
<b>Company secretary</b>	CHAN Kam Wah (陳錦華) <i>FCCA, CPA</i>
<b>Compliance officer</b>	LAU Kin Hon (劉建漢) <i>Practicing solicitor in Hong Kong</i>
<b>Audit Committee</b>	CHOY Wing Man (蔡詠雯) ( <i>Chairman</i> ) AU-YEUNG Tai Hong Rorce (歐陽泰康) CHEE Kwok Wing Waymond (池國榮)
<b>Remuneration Committee</b>	AU-YEUNG Tai Hong Rorce (歐陽泰康) ( <i>Chairman</i> ) CHOY Wing Man (蔡詠雯) LAU Kin Hon (劉建漢)

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## CORPORATE INFORMATION

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**Nomination Committee**

CHEE Kwok Wing Waymond (池國榮)  
(Chairman)

CHOY Wing Man (蔡詠雯)

LAU Ka Lung Ali (劉嘉隆)

**Principal share registrar and transfer office**

Codan Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

**Hong Kong branch share registrar and transfer office**

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

**Principal bankers**

Bank of China  
33rd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong

Bank of Communications  
Commercial Banking Centre (Island East)  
1st Floor  
67-71 King's Road  
North Point  
Hong Kong

Dah Sing Bank Limited  
34th Floor  
Dah Sing Financial Centre  
108 Gloucester Road  
Hong Kong

Hang Seng Bank  
11th Floor  
83 Des Voeux Road Central  
Hong Kong

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## CORPORATE INFORMATION

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	HSBC Level 9 HSBC Main Building 1 Queen's Road Central Hong Kong
	Standard Chartered Bank 12th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong
<b>Compliance adviser</b>	VC Capital Limited 28/F., The Centrium 60 Wyndham Street Central Hong Kong
<b>Website of the Company</b>	<a href="http://www.cheongleesec.com.hk">www.cheongleesec.com.hk</a> (None of this website nor information contained in this website forms part of this prospectus)

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## INDUSTRY OVERVIEW

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*This overview contains information derived from publicly available government or official sources referred to in this prospectus. The Company believes that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading. Such information has not been independently verified by the Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters or any other party involved in the Placing, and no representation is given as to its accuracy. You should note that such information may not be consistent with information from other sources and should not be unduly relied upon.*

### THE STOCK MARKET IN HONG KONG

#### History of the Stock Exchange

The Association of Stockbrokers in Hong Kong was established in 1891 as the first stock exchange in Hong Kong. It was renamed as the Hong Kong Stock Exchange in 1914. In 1921, the second stock exchange in Hong Kong, the Hong Kong Stockbrokers' Association was established. The two exchanges then merged and were together named as the Hong Kong Stock Exchange after the end of the Second World War.

During the late 1960s and early 1970s, the rapid growth of economy in Hong Kong has led to the establishment of three other exchanges in 1969, 1971 and 1972 respectively, namely the Far East Exchange, the Kam Ngan Stock Exchange and the Kowloon Stock Exchange. In 1980, the Stock Exchange was incorporated for the purpose of unification and merger of the four exchanges. The Stock Exchange commenced its business in April 1986.

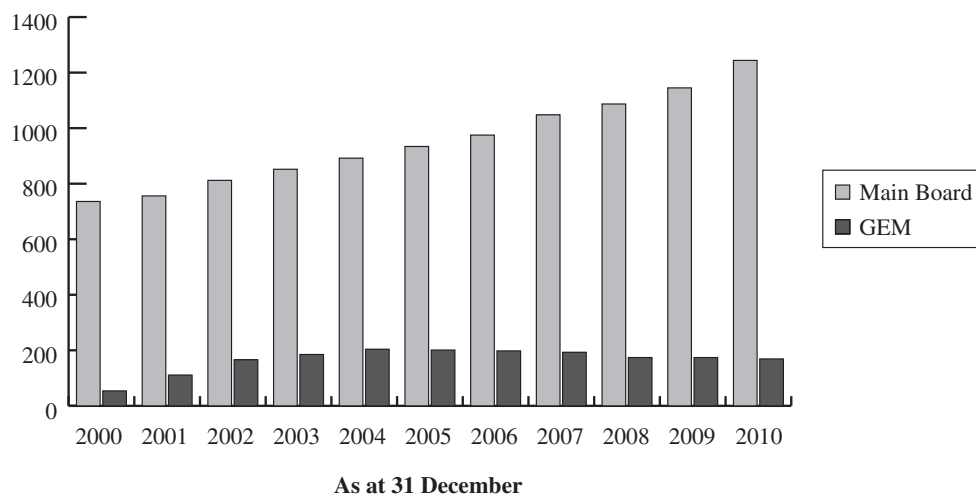
In 1999, the Stock Exchange launched GEM to provide fund-raising opportunities for growth companies of all sizes from all industries, and to promote the development of technology industries in the region. The first company became listed on GEM in November 1999. In the same year, the Stock Exchange, the Futures Exchange and their respective clearing houses merged under a single holding company, HKEx.

In March 2000, the Stock Exchange, the Futures Exchange and HKSCC were demutualised and became the wholly-owned subsidiaries of HKEx. On 27 June 2000, HKEx was listed on the Main Board by way of introduction and became one of the stock exchanges in the world having its shares publicly listed.

# INDUSTRY OVERVIEW

## Highlights of the Hong Kong stock market

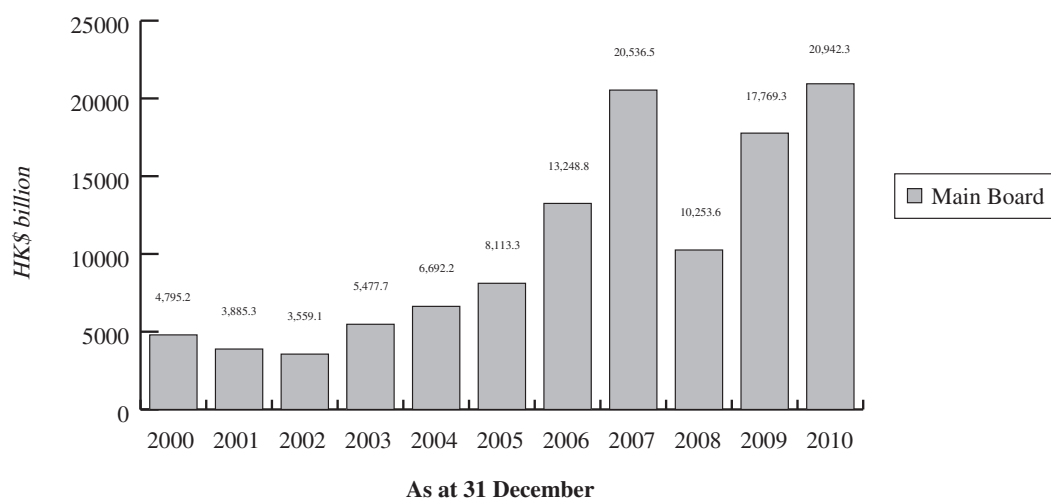
**Figure 1: Number of listed companies in Hong Kong (2000-2010)**



Source: the SFC

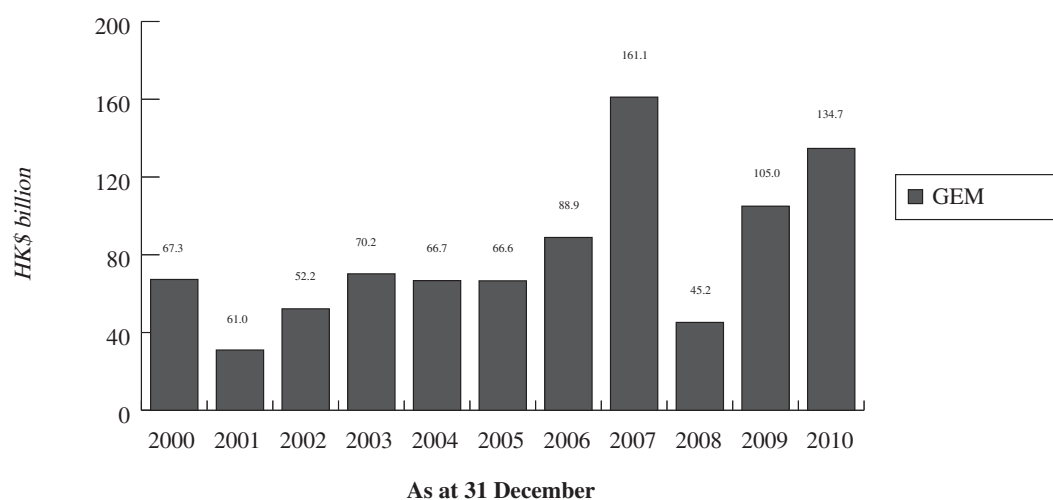
For the ten-year period from 2000 to 2010, the number of listed companies on the Main Board and GEM increased from 736 to 1,244 and from 54 to 169 respectively.

**Figure 2: Market capitalisation of companies listed in Hong Kong (2000-2010)**



Source: the SFC

## INDUSTRY OVERVIEW

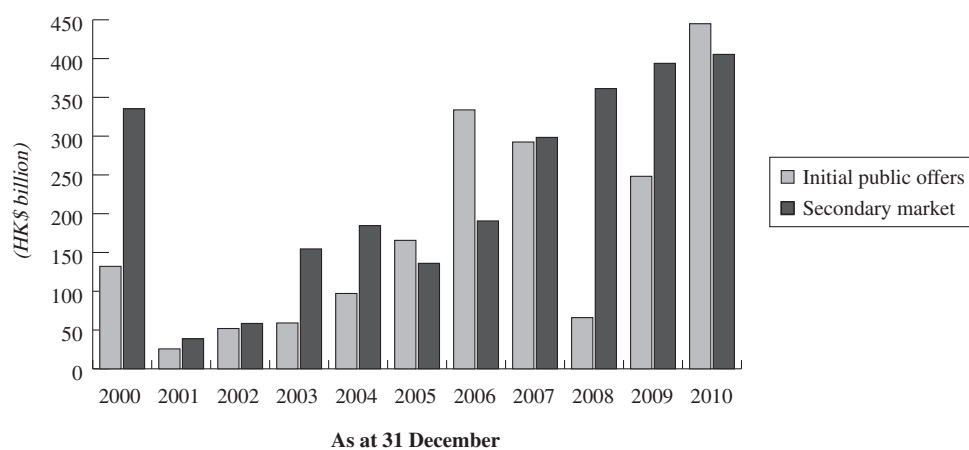


Source: the SFC

For the ten-year period from 2000 to 2010, the total market capitalisation of companies listed on the Main Board and GEM of the Stock Exchange increased by approximately 333.5%, from approximately HK\$4,862.5 billion to approximately HK\$21,077.0 billion. According to information from the SFC, as at 31 December 2010, the total market capitalisation of companies listed in Hong Kong amounted to approximately US\$2,711 billion ranking the Stock Exchange the third and the seventh among the stock exchanges of Asian countries and of the world respectively.

### Fund-raising activities in Hong Kong

Figure 3: Equity fund raised on the Stock Exchange (2000-2010)



Source: the SFC

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## INDUSTRY OVERVIEW

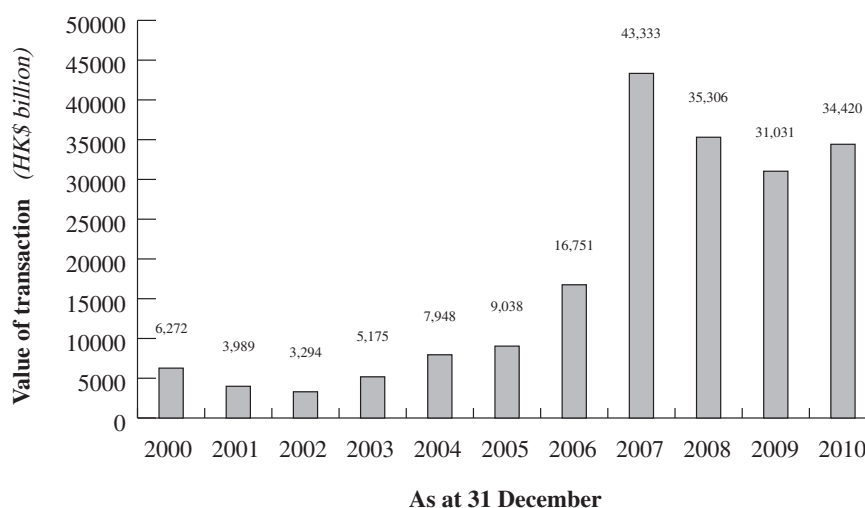
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For the ten-year period from 2000 to 2010, total equity fund raised on the Stock Exchange increased substantially by approximately 81.9% from approximately HK\$467.3 billion to approximately HK\$850.1 billion. During this period, fund raised from initial public offers increased by approximately 3.4 times from approximately HK\$132.1 billion to approximately HK\$445.0 billion. Fund raised from the secondary market increased from approximately HK\$335.2 billion to approximately HK\$405.1 billion.

### Securities market in Hong Kong

#### *Securities transactions*

**Figure 4: Transaction value traded on the Stock Exchange (2000-2010)**



Source: the SFC

For the period from 2000 to 2010, the number of transactions traded on the Stock Exchange increased from approximately HK\$73.7 million to approximately HK\$387.9 million, representing a substantial growth of about 426.0%. Total value of transactions increased by approximately 448.8% from approximately HK\$6,272 billion to approximately HK\$34,420 billion.

#### *Exchange Participants*

A person who wishes to trade listed securities on or through the facilities of the Stock Exchange must be an Exchange Participant holding a Stock Exchange trading right.

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## INDUSTRY OVERVIEW

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To become an Exchange Participant, the person must be an individual ordinarily resident in Hong Kong or a limited company incorporated in Hong Kong which is registered with the SFC as a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO. An Exchange Participant is required to maintain good financial standing and meet the FRR and the rules of the Stock Exchange.

Exchange Participants are classified into three categories:

- Category A – the 14 largest firms by market turnover;
- Category B – the 15th to 65th largest firms by market turnover; and
- Category C – other stockbrokers in the market.

Category A firms are engaged mainly in institutional trading, predominantly serving large overseas institutional clients. Category B firms are engaged in a mixture of overseas and local institutional trading and retail trading. Category C firms have historically captured a majority of the retail trading in Hong Kong, but are gradually being squeezed out of the market by large institutions from Category A, as well as Category B firms which have sufficient economies of scale to offer comprehensive and sophisticated service platforms than the traditional brokers.

### **Futures market in Hong Kong**

Hong Kong Commodity Exchange was established in 1976 for trading products futures, principally cotton futures, sugar futures, soybean futures and gold futures. It was renamed as the Futures Exchange in 1985 and introduced the first financial futures product, HSI futures, in the subsequent year. On 6 March 2000, the Stock Exchange and the Futures Exchange demutualised and together with HKSCC, merged under a single holding company, HKEx.

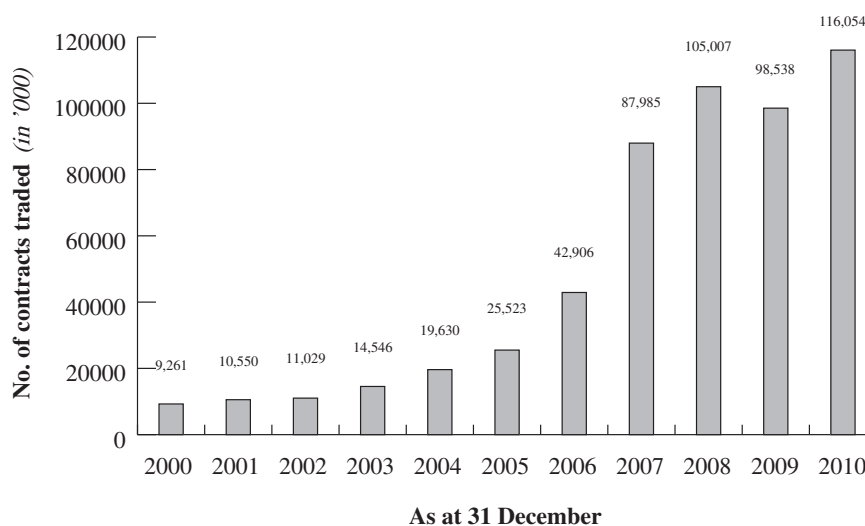
Today, derivatives products offered by the Futures Exchange include four main types, namely, (a) equity index products such as HSI futures and options, H-shares index futures and options, mini HSI index futures and options and mini H-shares index futures; (b) equity products such as stock futures and stock options; (c) interest rate and fixed income products such as HIBOR futures and three-year exchange fund note futures; and (d) gold futures. Among these, HSI futures are the most popular derivatives at the Futures Exchange. According to the website of the SFC, approximately 48.9% of the futures contracts traded in 2010 on the Futures Exchange were HSI futures (not including mini HSI futures).

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## INDUSTRY OVERVIEW

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**Figure 5: Futures and options contracts traded in the Futures Exchange (2000-2010)**



Source: the SFC

For the period from 2000 to 2010, the number of futures and options contracts traded in the Futures Exchange increased from approximately 9.3 million to 116.1 million, representing a growth of approximately 1,148.4%.

### ***Futures Exchange Participants***

A person who wishes to trade on or through the facilities of the Futures Exchange must be a Futures Exchange Participant holding a Futures Exchange Trading Right.

To become a Futures Exchange Participant, the person must be a company registered with the SFC as a licensed corporation to carry out Type 2 (dealing in futures contracts) regulated activity under the SFO. A Futures Exchange Participant is also required to meet the FRR and the rules of the Futures Exchange and such other financial resources requirements as may be prescribed by the Futures Exchange.

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## INDUSTRY OVERVIEW

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### Competition of brokerage industry in Hong Kong

The main entry barrier in Hong Kong's brokerage business comes from the paid-up share capital, liquid capital and licensing requirements of the SFC. Securities dealing and futures dealing are the regulated activities under the SFO and are governed by the relevant rules and regulations. New entrants who wish to carry on such regulated activities must be licensed by the SFC to become a licensed corporation. Each licensed corporation must have not less than two responsible officers to directly supervise the conduct of each regulated activity. Depending on the type(s) of regulated activity/activities, licensed corporations have to at all times maintain the paid-up share capital and liquid capital of not less than the specified amounts according to the FRR. Please also refer to the section headed "Regulatory and licensing requirements" of this prospectus for details.

The rapid increase in the transaction size and the transaction value of the stock market in Hong Kong has created a growing attraction and strong demand to the local brokerage industry and has led to fierce competition in the local brokerage industry during these years. Local banks and multinational financial institutions including banks and investment banks with global network and a local presence in Hong Kong compete for both traditional telephone and online based clients within Hong Kong. As at 31 January 2011, there were 487 Stock Exchange trading participants, 31 Stock Exchange non-trading participants and 178 Futures Exchange trading participants. Exchange Participants are classified into three groups according to their shares of market turnover. Please refer to "Exchange Participants" above for details. Below is the distribution of market participants' market shares from 2005 to 2009:

Year	Category A (Position 1 to 14)	Category B (Position 15 to 65)	Category C (Position > 65)
2005	53.08%	33.15%	13.77%
2006	52.04%	35.61%	12.35%
2007	50.37%	37.75%	11.85%
2008	53.02%	36.30%	10.68%
2009	52.02%	35.34%	12.64%

Source: HKEx fact book 2009

Note: The table includes all Exchange Participant firms that had paid transaction levy, investor compensation levy (if applicable) and trading fee to the Stock Exchange.

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## INDUSTRY OVERVIEW

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As illustrated above, the brokerage business in Hong Kong is dominated by certain large firms, in particular those in Category A, the top 14 firms accounted for more than 50% of the market turnover in the past few years. Competition for firms in Category C is extremely intensive.

Both local and international licensed corporations compete for fees and commissions. Since 1 April 2003, minimum brokerage commission rates in respect of securities and commodities trading in Hong Kong have been deregulated, and therefore brokerage commissions are subject to market forces and negotiations with clients and may become susceptible to downward pressure from time to time. Markets players have to adapt to this more competitive commission regime. Apart from pricing, the Group also competes on client relationship, brand recognition, resources and technical competence. Please refer to the section “Competitive strength” under “Business” of this prospectus for details.

Cheong Lee is a Constituency B Exchange Participant and competes mainly with local small and medium sized brokerage firms of Category B in Hong Kong. In 2009, according to information provided to the Company by the Stock Exchange, its position amongst the Exchange Participants was 22 out of 454 and its market share was approximately 1.25% based on trading fee, transaction levy and investor compensation levy (if applicable). Its major competitors are licensed corporations participating in regulated activities providing similar services as the Group, such as the provision of securities, futures and option broking and trading, placing and underwriting services and other ancillary services. As at the Latest Practicable Date, Cheong Lee’s paid-up share capital which amounts to HK\$40 million has exceeded the minimum requirement of HK\$5 million for its existing business activities and even exceeded the minimum requirement of HK\$10 million for the margin finance business which has yet to be developed. The Directors believes that with funds to be raised from the Placing and the strengthened financial position of the Group after the Listing where the Group can access to the secondary fund-raising market in Hong Kong, and as and when necessary, obtain funding from financial institutions on relatively favorable terms with its listing status, the Group’s overall financial strength would become more comparable to a few small and medium sized listed companies, which involve in brokerage business in Hong Kong and are the major competitors of the Group. The Directors are confident that the Listing will have positive impact on the Group’s brand image and the Group will continue enhancing public awareness towards its services and brand thereafter, in particular, through opening a new branch office for greater market exposure to retail clients and client relation activities to be carried out by its experienced sales and marketing team.

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## INDUSTRY OVERVIEW

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### TRADING INFRASTRUCTURE

#### (i) AMS/3

All securities listed on the Stock Exchange are traded through AMS. AMS was first introduced in 1993 to accommodate the increasing volume of business as well as to cope with the rapid technological advances and growing demand for more efficient trading environment. Prior to the launch of AMS, trading on the Stock Exchange was conducted manually, either through its internal telephone system or the “open outcry” system where Exchange Participants negotiated face-to-face on the trading floor.

The Stock Exchange currently adopts AMS/3 for its electronic trading platform. AMS/3 is the third generation of AMS which was launched in 2000 to replace AMS/2. AMS/3 has extensive capabilities in various areas, including market model, trading methods, market access and trading facilities and investor access channels. It uses auto-matching as core mode for trading. In addition, AMS/3 also features new methods such as single price auction and quote-based market-making. Other new order types, such as enhanced limit order and special limit order have been introduced to support different investors’ needs.

Under AMS/3, there are two approaches to trading – Terminal Approach and Gateway Approach:

- Terminal Approach – trading is conducted through AMS/3 trading terminals, which allow for securities trading in Hong Kong only and is similar to the on-floor and off-floor AMS/2 terminals in terms of operation and functionality. This means trading can be conducted through input terminals located on the Stock Exchange’s trading floor, or through off-floor terminals installed at the Exchange Participants’ offices with a maximum of two off-floor terminals per Stock Exchange seat held.
- Gateway Approach – brokers can obtain market accessibility using an Open Gateway. To perform trading functions, brokers need to connect their trading facility to the OG device. Brokers can connect OG through (i) Broker Supplied System, which is an in-house developed system or third-party software package developed by commercial vendors; and (ii) Multi-workstation System which is a Windows-based trading facility offered and supported by HKEx.

Finally, AMS/3 provides investors with channels including the Internet and mobile phones for submitting their trade orders. An order routing system developed by the Stock Exchange links AMS/3 access channels to brokers’ OG. The connection enables two-way electronic data transfer and allows brokers to offer new types of services to their clients.

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## INDUSTRY OVERVIEW

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The trading capacity of an Exchange Participant is called the throttle rate, which had been restricted by the number of Exchange Trading Rights held by the Exchange Participant. Throttle rate determines the rate at which orders can be sent through an OG to the AMS/3 by the Exchange Participant. The standard throttle rate is one order per second. Exchange Participants may increase their throttle rates in integral multiples of one order per second by paying additional fees to HKEx.

### (ii) HKATS

Automatic Trading System, an electronic trading system of the Futures Exchange was introduced in 1995. It was subsequently upgraded and renamed as the Hong Kong Automatic Trading System in 1999. In 2000, HKATS became the trading platform for all products traded on the Futures Exchange when the trading in HSI futures contracts and option contracts migrated from an open outcry system to electronic trading system. Trading can be made through HKATS Click workstations or independently supplied workstations connected through OAPI located at the premises of the Futures Exchange Participants. With HKATS, users can view real-time price information on a computer screen, click on a bid or ask price and execute an order.

## SETTLEMENT

### (i) CCASS

CCASS, a computerised book-entry clearing and settlement system for transactions executed on the Stock Exchange, was introduced in 1992. It accepts share certificates from its participants and holds them in the CCASS depository, and posts electronic share credits to the stock accounts of the depositing participants. Settlement of transactions is recorded electronically by HKSCC as net increases or decreases in participants' stock account balances, without any physical transfer of share certificates. HKSCC also facilitates payments through the use of electronic money transfers between the participants' designated banks. Exchange Participants are required to settle all their trades in eligible securities through CCASS. Operation of investor accounts in CCASS was launched in May 1998. HKEx currently has six categories of CCASS participants, namely, investors, brokers, clearing agencies, custodians, stock lenders and stock pledgees.

Trades executed on AMS/3 are automatically transferred to CCASS for clearing for settlement among the Exchange Participants on T+2.

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## INDUSTRY OVERVIEW

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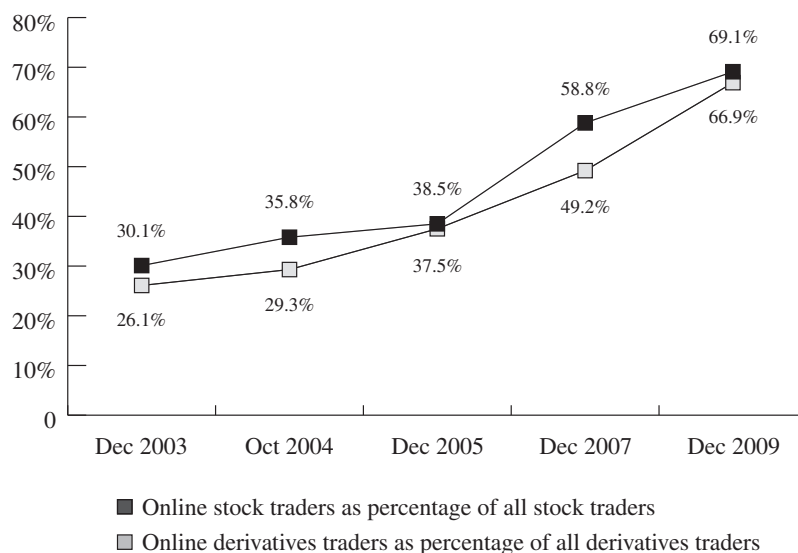
### (ii) DCASS

The derivatives products being traded through HKEx are settled through DCASS which is owned and operated by HKFE Clearing Corporation Limited (“**HKCC**”) and the SEHK Options Clearing House Limited (“**SEHOC**”). DCASS was first launched in April 2004. It is a fully electronic and automated clearing and settlement system capable of supporting various types of derivatives products.

Futures Exchange Participants can access DCASS through a terminal or through an Application Programme Interface (API), based on the HKATS Open API. Through the DCASS terminal, Exchange Participants can (i) access information on specific accounts, including propagation and position details; (ii) perform on-line trade and position management functions; (iii) submit on-line exercise instructions; and (iv) estimate margin requirements based on their actual or hypothetical positions, they can also access margining parameters and data for margining.

### THE ONLINE BROKERAGE INDUSTRY IN HONG KONG

**Figure 6: Proportion of stock/derivatives traders as online traders (1999-2009)**



Source: HKEx fact book 2009

According to available statistics from the Stock Exchange, online stock traders as a percentage of all stock traders increased from about 30.1% as at 31 December 2003 to about 69.1% as at 31 December 2009; and online derivatives traders as a percentage of all derivatives traders increased from about 26.1% as at 31 December 2003 to about 66.9% as at 31 December 2009. Online stock traders tended to trade stocks more frequently than non-online stock traders – they had a median of 12 stock transactions in the 12-month period versus 10 stock transactions for non-online stock traders. In comparison, online derivatives traders had a median of eight derivative transactions in the 12-month period, less than the 10 derivative transactions for non-online derivative traders.

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## INDUSTRY OVERVIEW

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**Figure 7: Statistics on retail online trading in cash market**

	2005/06	2006/07	2007/08	2008/09	2009/10
Responded Sample Size					
<i>(Note)</i>	351	380	404	410	409
<b>Online brokers</b>					
Number of online brokers	105	126	155	173	185
As % of all responding					
Stock Exchange					
Participants	29.91%	33.16%	38.37%	42.20%	45.23%
<b>Online trading</b>					
Online trading value					
<i>(HK\$ million)</i>	268,566	845,014	1,156,321	921,416	1,095,691
As % of the total market					
turnover	3.94%	5.26%	5.06%	6.34%	6.94%

*Source:* Cash market transaction survey 2009/10 of Stock Exchange, which covered Stock Exchange Participants for the 12-month period from October 2009 to September 2010

*Note:* Total number of Exchange Participants was 468, 469, 478, 487 and 495 respectively in 2005, 2006, 2007, 2008 and 2009 according to HKEx Fact Book 2009.

On a sample basis, which covers a majority of Stock Exchange Participants, total number of online brokers from 2005/06 to 2009/10 increased from 105 to 185 representing an increase from approximately 29.9% to 45.2% of all responding Stock Exchange Participants. Online trading value as a percentage to the total market turnover increased from approximately 3.9% in 2005/06 to 6.9% in 2009/10.

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. As at the Latest Practicable Date, there were no additional registration and licensing requirements in Hong Kong 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 address 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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### IPO FINANCING AND SHARE MARGIN FINANCING

As demonstrated under the section “Securities market in Hong Kong” above, Hong Kong has seen a significant growth in its stock market activities in recent years. This provided the authorised institutions (“AI”, as defined by HKMA) with more opportunities to participate in IPOs, whether as a lending AI to finance the subscription for new shares or as a receiving bank. Lending AI means an AI which extends credit facilities to its clients for the purpose of: (i) facilitating their subscription for new shares in an IPO; (ii) financing their acquisition or holding of shares in listed stocks (in the case of lending to investors); or (iii) financing their business operations (in the case of lending to stockbrokers).

According to the latest version of Supervisory Policy Manual published by HKMA in 2007, lending AIs should apply a reasonable margin requirement on their lending to individual clients; generally speaking, the market norm is a 10% margin on such lending. This requirement may be satisfied by the deposit of collateral (in the form of cash or securities) with the lending AIs or by setting an appropriate loan-to-value ratio. Lending AIs should exercise prudence in setting the ratios and having regard to the underlying financial strength, liquidity and price volatility of individual stocks. As a reference, the current market norms are: (i) around 50-60% for blue chips (with higher ratios of 70% adopted by lending AIs which specialise in share margin financing and have the expertise and sophisticated risk management systems to control the risks involved); and (ii) around 30-40% or below for selected second and third liners. Such market norms may change from time to time according to market situations.

The following data from the “Market data” section of annual report 2009-10 of the SFC were extracted from the monthly financial returns submitted in accordance with the FRR by licensed corporations licensed for dealing in securities or securities margin financing:

	As at 31 December		
	2007	2008	2009
Number of active margin clients	110,043	113,823	138,772
Amounts of receivables from margin clients	HK\$41,765 million	HK\$17,271 million	HK\$40,160 million
Average collateral coverage (Note)	Not available	4.4	5.2

Source: SFC annual report 2009

Note: the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis

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## REGULATORY AND LICENSING REQUIREMENTS

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### **Regulations of securities and futures market**

The securities and futures markets in Hong Kong are regulated by the SFC. The SFC is an independent non-governmental statutory body outside the civil service system. It was established in 1989 following the enactment of the Securities and Futures Commission Ordinance. Its regulatory functions and powers were expanded in 2003 when the SFO was implemented. The SFC also regulates other financial intermediaries and the representatives from these financial intermediaries, namely, licensed corporations in Hong Kong who are not necessarily members of the Stock Exchange and the Futures Exchange.

The SFO is administered by the SFC and it provides for the fundamental frameworks within which dealings in securities are conducted and regulated. Under the SFO, the SFC has six statutory regulatory objectives:

- 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 Hong Kong in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

In order to achieve the above objectives, SFC, among other functions, supervises three main groups of participants in the securities and futures market in Hong Kong:

- Intermediaries – brokers, investment advisers, asset managers and investment bankers who are engaged in regulated activities;
- Issuers of securities – listed companies and investment funds through an authorisation process to ensure that adequate and unbiased information is available to permit informed investment decisions; and

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## REGULATORY AND LICENSING REQUIREMENTS

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- Market operators – providers of trading platforms of securities, for example, HKEx, which is the holding company of the Stock Exchange, the Futures Exchange and HKSCC.

The SFO stipulates nine types of regulated activities that can be carried on by intermediaries:

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.

### **Licensing requirements under the SFO**

Under the SFO, a corporation which is not an authorised financial institution and is:

- (a) carrying on a business in a regulated activity or hold out as carrying on a business in a regulated activity; or
- (b) actively marketing, whether in Hong Kong or from a place outside Hong Kong, to the public any services that it provides, which would constitute a regulated activity if provided in Hong Kong,

must be licensed by the SFC to carry out regulated activities, unless one of the exemptions under the SFO applies. An individual is required to be a Licensed Representative if he is performing a regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business or he holds out as performing such function.

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## REGULATORY AND LICENSING REQUIREMENTS

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### ***Responsible officers***

Each licensed corporation must have not less than two responsible officers to directly supervise the conduct of each regulated activity. For each regulated activity, it must have at least one responsible officer available at all times to supervise the business. The same individual may be appointed to be a responsible officer for more than one regulated activity provided that he is fit and proper to be so appointed and there is no conflict in the roles assumed. At least one of the responsible officers must be an executive director as defined under the SFO. All executive directors must seek the SFC's approval as responsible officers accredited to the licensed corporation.

### ***Qualification and experience required for being a responsible officer***

A person who intends to apply to be a responsible officer should meet the below criteria in order to take up the relevant responsibility:–

#### ***Sufficient authority***

- A responsible officer should have sufficient authority to supervise the business of regulated activity within the licensed corporation that a responsible officer will be accredited to.
- A responsible officer may or may not be a director of the licensed corporation. However if a person is a director of the corporation and actively participates or directly supervises the business of regulated activity, he/she must apply to become a responsible officer of that corporation in respect of the regulated activity concerned under the SFO.

#### ***Competence***

- A responsible officer should possess appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation's business of regulated activities. Basically, he/she has to fulfill the four elements mentioned in the table below to be approved as a responsible officer.

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## REGULATORY AND LICENSING REQUIREMENTS

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	Basic elements	Can be compensated by
(1)	<b>Academic/industry qualification</b>	<p>Passed one of the recognised industry qualifications</p> <ul style="list-style-type: none"> <li>Degree in Accounting, Business Administration, Economics, Finance or Law, or other degree (with passes in at least two courses in the above disciplines); or</li> <li>Internationally recognised professional qualifications in Law, Accounting or Finance; or</li> <li>Passes in English or Chinese; and Mathematics in Hong Kong Certificate of Education Examination (“HKCEE”) or equivalent plus an additional two years of relevant industry experience; or</li> <li>An additional five years of relevant industry experience.</li> </ul>
(2)	<b>Industry experience</b>	<p>Possesses three years of relevant industry experience over the six years immediately prior to the date of application</p> <p>Not applicable</p>
(3)	<b>Management experience</b>	<p>Has a minimum of 2 years’ proven management skill and experience</p> <p>Not applicable</p>
(4)	<b>Regulatory knowledge</b>	<p>Passed one of the recognised local regulatory framework papers</p> <p>Applicant may apply for exemption from taking the recognised local regulatory framework paper if he/she satisfies the exemption criteria as set out in Appendix E of the Guidelines on Competence under section 399 of the SFO</p>

If a responsible officer intends to conduct regulated activities in relation to matters falling within the ambit of a particular code issued by the SFC, e.g. the Takeovers Code, the Code on Share Repurchases (股份購回守則) or the Code on Real Estate Investment Trusts (房地產投資信託基金守則), additional competence requirements specific to that field would apply.

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## REGULATORY AND LICENSING REQUIREMENTS

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### *Qualification and experience required for being a Licensed Representative*

A person who intends to apply to be a Licensed Representative has to establish that he/she has the requisite basic understanding of the market in which he/she has to work as well as the laws and regulatory requirements applicable to the industry. In assessing his/her competence to be licensed as a representative, the SFC will have regard to three basic elements in the below table:–

	Basic elements	Can be compensated by
(1)	<b>Academic/ industry qualification</b>	<p>Passes in English or Chinese, and Mathematics in HKCEE or equivalent</p> <ul style="list-style-type: none"> <li>• Degree in Accounting, Business Administration, Economics, Finance or Law, or other degree (with passes in at least two courses in the above disciplines); or</li> </ul>
(2)	<b>Industry qualification</b>	<p>Passed one of the recognised industry qualifications</p> <ul style="list-style-type: none"> <li>• Internationally recognised professional qualifications in Law, Accounting or Finance; or</li> <li>• An additional two years of relevant industry experience for lacking either (1) or (2); or</li> <li>• An additional five years of relevant industry experience for lacking both (1) and (2).</li> </ul>
(3)	<b>Regulatory knowledge</b>	<p>Passed one of the recognised local regulatory framework papers</p> <p>Applicant may apply for exemption from taking the recognised local regulatory framework paper if he satisfies the exemption criteria as set out in Appendix E of the Guidelines on Competence (勝任能力的指引) under section 399 of the SFO .</p>

*Note:* A representative licensed for Type 3 regulated activity (leverage foreign exchange trading) who handles discretionary account activities has to obtain an additional three years of direct foreign exchange trading experience in the inter-bank foreign exchange market or currency futures market, or its equivalent over the past six years.

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## REGULATORY AND LICENSING REQUIREMENTS

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### *Fit and proper*

The SFC is obliged to refuse to grant a licence or registration if the applicant fails to satisfy the SFC that he is fit and proper. Pursuant to Section 129 of the SFO, in considering whether a person is fit and proper for the purposes of licensing or registration, the SFC shall, in addition to any other matter that the SFC may consider relevant, have regard to the following:–

- financial status or solvency;
- educational or other qualifications or experience having regard to the nature of the functions to be performed;
- ability to carry on the regulated activity concerned competently, honestly and fairly; and
- reputation, character, reliability and financial integrity of the applicant and other relevant persons as appropriate.

The SFC published The Fit and Proper Guidelines (適當人選的指引) under Section 399 of the SFO which sets out a number of matters that the SFC will normally consider in determining whether a person is fit and proper:

- (a) decisions made by such relevant authorities as stated in Section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;

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## REGULATORY AND LICENSING REQUIREMENTS

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

The Fit and Proper Guidelines (適當人選的指引) apply to a number of persons including the following:

- (a) an individual who applies for a licence or is licensed under Part V of the SFO;
- (b) a Licensed Representative who applies for approval or is approved as a Responsible Officer under Part V of the SFO;
- (c) a corporation which applies for a licence or is licensed under Part V of the SFO;
- (d) an authorised financial institution which applies for registration or is registered under Part V of the SFO;
- (e) an individual whose name is to be or is entered in the register maintained by the HKMA under Section 20 of the Banking Ordinance (銀行業條例) (Chapter 155 of the Laws of Hong Kong (香港法例)); and

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## REGULATORY AND LICENSING REQUIREMENTS

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- (f) an individual who applies to be or has been given consent to act as an executive officer of a registered institution under Section 71C of the Banking Ordinance (銀行業條例) (Chapter 155 of the Laws of Hong Kong (香港法例)).

Persons applying for licences and registrations under the SFO must satisfy and continue to satisfy, after the grant of such licences and registrations, the SFC that they are fit and proper persons to be so licensed or registered.

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. In relation to an application to be registered under Section 119 of the SFO by an authorised financial institution, the SFC is obliged to have regard to the advice given to it by the Hong Kong Monetary Authority as to whether it has been satisfied that the applicant is a fit and proper person and the SFC may rely on such advice wholly or partly.

### ***Financial resources***

Depending on the type(s) of regulated activity/activities, licensed corporations have to maintain at all times paid-up share capital and liquid capital not less than the specified amounts according to the FRR. The FRR sets out the computation of a number of variables in respect of all the liquid assets and ranking liabilities of a licensed corporation and its liquid assets must exceed its ranking liabilities. If a licensed corporation conducts more than one type of regulated activity, the minimum paid-up share capital and liquid capital that it must maintain shall be the higher or the highest amount required amongst those regulated activities.

The following table summarises the minimum paid-up capital and liquid capital that a licensed corporation is required to maintain for Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities:

Regulated activity	Minimum paid up share capital	Minimum liquid capital
Type 1		
(a) in the case where the corporation is an approved introducing agent or trader	Not applicable	HK\$500,000
(b) in the case where the corporation provides securities margin financing	HK\$10,000,000	HK\$3,000,000
(c) in any other case	HK\$5,000,000	HK\$3,000,000

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## REGULATORY AND LICENSING REQUIREMENTS

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Regulated activity	Minimum paid up share capital	Minimum liquid capital
Type 2		
(a) in the case where the corporation is an approved introducing agent, a trader or a futures non-clearing dealer	Not applicable	HK\$500,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000
Type 4		
(a) in the case where in relation to Type 4 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	HK\$100,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000
Type 5		
(a) in the case where in relation to Type 5 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	HK\$100,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000

Pursuant to the FRR, a licensed corporation shall maintain the higher of the minimum liquid capital or 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. Adjusted liabilities means the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding amounts stipulated in the definition of "adjusted liabilities" under the FRR.

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## REGULATORY AND LICENSING REQUIREMENTS

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### **Continuing compliance obligations**

#### ***Remaining fit and proper***

Licensed corporations, Licensed Representatives and registered institutions must remain fit and proper at all times and comply with all applicable provisions of the SFO and its subsidiary legislations as well as the codes and guidelines issued by the SFC.

#### ***Submission of audited accounts***

Licensed corporations and associated entities of intermediaries (except for those which are authorised financial institutions) are required to submit their audited accounts and other required documents within four months after the end of each financial year as required under Section 156(1) of the SFO.

#### ***Submission of financial resources returns***

Licensed corporations are required to submit monthly financial resources returns to the SFC except for those licensed corporations for only Types 4 (advising on securities), 5 (advising on futures contracts), 6 (advising on corporate finance) and/or 9 (asset management) regulated activities and their licenses are subject to the condition that they shall not hold client assets. In such latter case, the licensed corporations concerned shall submit semi-annual financial resources returns to the SFC as required under Section 56 of the FRR.

#### ***Payment of annual fees***

Licensed corporations, Licensed Persons and registered institutions should pay annual fees within one month after each anniversary date of the licenses or registrations under Section 138(2) of the SFO, details of the annual fees applicable to the four types of the regulated activities that the Group is engaged in are as follows:

<b>Type of intermediary</b>	<b>Annual fees for Types 1, 2, 4 and 5 regulated activities</b>
Licensed corporation	HK\$4,740 per regulated activity
Licensed Representative (not approved as Responsible Officer)	HK\$1,790 per regulated activity
Licensed Representative (approved as Responsible Officer)	HK\$4,740 per regulated activity
Registered institution	HK\$35,000 per regulated activity

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## REGULATORY AND LICENSING REQUIREMENTS

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### *Continuous professional training*

According to the Guidelines on Continuous Professional Training (持續培訓的指引) published by the SFC pursuant to Section 399 of the SFO, a licensed corporation is held primarily responsible for designing and implementing a continuous education system best suited to the training needs of the individuals they engage which will enhance their industry knowledge, skills and professionalism. A licensed corporation should at least annually evaluate the training needs of the individuals they engage. Licensed individuals must undertake a minimum of five continuous professionalism training hours per calendar year for each regulated activity he engages in.

### *Obligation for substantial shareholder*

As required under Section 132 of the SFO, a person (including a corporation) has to apply for SFC's approval prior to becoming or continue to be a substantial shareholder of a licensed corporation. A person, being aware that he becomes a substantial shareholder of a licensed corporation without SFC's prior approval should, as soon as reasonably practicable and in any event within three business days after he becomes so aware, apply to the SFC for approval to continue to be a substantial shareholder of the licensed corporation.

Prior approval would also need to be obtained from the SFC in cases such as addition or reduction of regulated activity, modification or waiver of licensing condition, change of financial year end.

In relation to the aforesaid compliance obligations, the Company has adopted various measures as set out in its operation manual which covers, among others, keeping records of staff members registered with the SFC and proper notification to the SFC for any changes in particulars or employment status, obtaining approval from the Board for appointment of Responsible Officers and conducting background checks on new staff, providing a copy of Code of Conduct and other regulatory updates issued by the SFC to staff, proper filing of financial return to the SFC based on financial statements with supporting schedules for each FRR item and the breakdown showing adjustment as required under FRR.

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## REGULATORY AND LICENSING REQUIREMENTS

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### Employee dealings

As mentioned in the Code of Conduct for Persons Registered with the SFC (證券及期貨事務監察委員會註冊人操守準則), a registered person should have a policy which has been communicated to employees (including directors other than non-executive directors) in writing on whether employees are permitted to deal for their own accounts in securities or futures contracts. In the event that employees of a registered person are permitted to deal for their own accounts in securities or futures contracts:

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

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

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## REGULATORY AND LICENSING REQUIREMENTS

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### Anti-money laundering and terrorist financing

Money laundering covers a wide range of activities and processes intended to alter the identity of the source of illegally obtained money in a manner which creates the appearance that it has originated from a legitimate source. Terrorist financing is a term used to refer to financial transactions involving assets owned or controlled by terrorists and transactions linked to terrorist activities.

Licensed corporations registered under the SFO are required to comply with the Hong Kong laws and the SFC Guidance Notes on Prevention of Money Laundering and Terrorist Financing Guidance Note (防止洗黑錢及恐怖分子籌資活動的指引) which require licensed corporations, amongst other things, to adopt and enforce “know your clients” policies and procedures. Staff of licensed corporations who knows, suspects or has reasonable grounds to believe that a client might have engaged in money laundering activities must immediately report to the compliance division/senior management of its organisation which, in turn, will be reported to the Joint Financial Intelligence Unit (聯合財富情報組).

The Group has adopted policies and procedures in its operation manual to identify and detect money laundering activities, which include the following:–

- (i) Customer due diligence – Staff is required to
  - (a) identify the customer, i.e. know who the individual or legal entity is;
  - (b) verify the customer’s identity using reliable source documents, data or information;
  - (c) identify and verify beneficial ownership and control and/or the person on whose behalf a transaction is being conducted; and
  - (d) conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with their knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer’s source of funds;
- (ii) Retention of Records – Staff is required to
  - (a) maintain all necessary records on transactions, both domestic and international, for at least seven years.
  - (b) keep records on customer identification, account files and business correspondence for at least five years after the account is closed.

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## REGULATORY AND LICENSING REQUIREMENTS

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- (iii) The Company provides anti-money laundering and anti-terrorist financing training to staff at regular intervals; and
- (iv) Staff are required to report any suspicious transactions directly to the Compliance Officer or a Responsible Officer for further action.

The Company's compliance department will continue to monitor its internal controls measures and periodically review its procedures and update the operation manual for improvement of operational policies and procedures; and for any change in business operation or the SFC and other regulatory requirements. The Directors believe that the Company will be able to ensure on-going compliance with the relevant regulatory requirements after the Listing with the adoption of measures in its operation manual and the continuous efforts of its compliance department on reviewing and updating the operation manual to cope with further development of the Group.

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## HISTORY AND DEVELOPMENT

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Cheong Lee was founded by an Independent Third Party (the “founder”) under the former name “Cheong Lee Securities Company, Limited”. It was incorporated on 10 November 2004 with limited liability in Hong Kong with an authorised share capital of HK\$5,000,000 divided into 50,000 shares of HK\$100 each. Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 1 (dealing in securities) and 4 (advising on securities) regulated activities effective from 24 November 2005.

On 2 May 2007, the SFC approved the application of Ms. Au to become a substantial shareholder of Cheong Lee pursuant to the SFO. As agreed pursuant to a memorandum of agreement dated 14 June 2007, the founder disposed of her entire interest in Cheong Lee by transferring 90% and 10% of the issued share capital to Ms. Au and an Independent Third Party respectively for an aggregate consideration of HK\$5,722,465.73, which is determined based on the net asset value of Cheong Lee as at the completion of the disposal with a premium of HK\$420,000 determined on arm’s length basis as confirmed by Ms. Au. The consideration was settled in cash. Although Cheong Lee has obtained the Exchange Participant certificate and the Exchange trading right from the Stock Exchange before the share transfer, Cheong Lee did not conduct any business since the date of incorporation until it started the securities brokerage business in September 2007 after the share transfer. In September 2007, Cheong Lee also tapped into the underwriting and placing business. The authorised and paid up share capital was increased by four times to HK\$15 million as at 30 November 2007 with contribution of funds from Ms. Au. As a result, Ms. Au and the other shareholder held approximately 94.7% and 5.3% of total issued share capital of Cheong Lee respectively.

On 19 December 2007, Ms. Au acquired all the shares in Cheong Lee then held by the other shareholder for cash at par in consideration of HK\$800,000. As a result, Ms. Au holds 100% of the equity interest of Cheong Lee. On 9 January 2008, the company name was changed to “Cheong Lee Securities Limited”. The authorised share capital of Cheong Lee was increased by five times thereafter. As at the Latest Practicable Date, the authorised and paid-up share capital of Cheong Lee amounted to HK\$40,000,000.

In 2008, Cheong Lee upgraded its computer system and application server for a more advanced trading platform. Dealing capacity, which is measured by throttle rate on the basis of orders per second, has been increased from 3 to 5 by paying additional fee to the Stock Exchange. In June 2008, Cheong Lee introduced the on-line electronic trading services on its website ([www.cheongleesec.com.hk](http://www.cheongleesec.com.hk)) to complement and support its securities broking business. The online trading platform allows clients to place trading orders for securities in Hong Kong through the Internet.

In view of its increasing participation in underwriting and placing, Cheong Lee established the equity capital market department under the sales and marketing department in April 2009 to handle assignments of acting as underwriter, sub-underwriter or placing agent or sub-placing agent of IPOs and placing of securities carried out by companies listed/to be listed on the Stock Exchange or on other stock exchange or shareholders of companies listed on the Stock Exchange.

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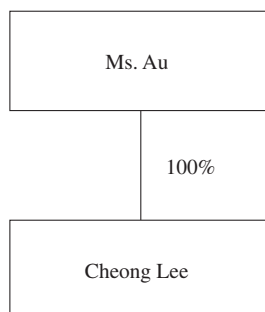
## HISTORY AND DEVELOPMENT

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In 2009, Cheong Lee commenced the futures broking business after obtaining all relevant licences. On 27 August 2009, Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 2 (dealing in futures contracts) and 5 (advising on futures contracts) regulated activities under the SFO. On 12 October 2009, it was granted with the Futures Exchange Participant certificate and the Futures Exchange trading right from the Futures Exchange and the HKCC Participant certificate from HKCC. In November 2009, a futures contract dealing system was installed to provide a platform for clients to conduct trades through the OAPI located at Cheong Lee's premises. Cheong Lee increased its throttle rate from 5 to 12 in 2009, and further from 12 to 14 in as at 30 September 2010 by paying additional fee to the Stock Exchange in order to cope with its business growth.

On 27 August 2010, the Company was incorporated with limited liability in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of a par value of HK\$0.01 each and 1 fully paid Share was issued to the subscriber who transferred the same Share at par value to Ms. Au on the same day. On 15 September 2010, Cheong Lee BVI was incorporated as a direct wholly-owned subsidiary of the Company. After the Reorganisation, the Company became the holding company of Cheong Lee BVI and Cheong Lee.

The following chart sets out the corporate structure of the Group immediately prior to the Reorganisation:

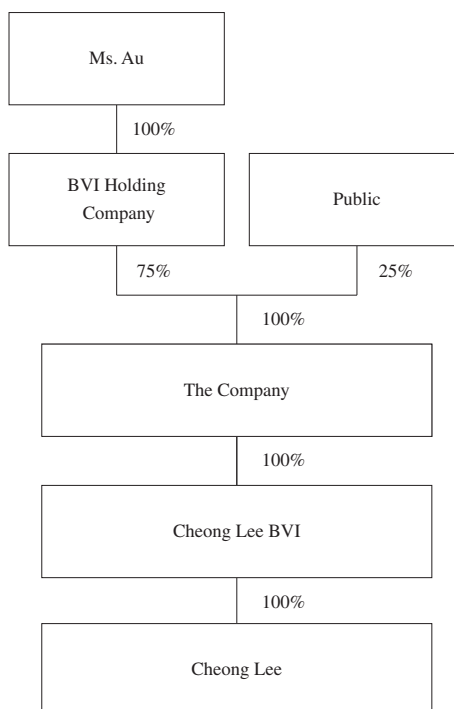


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## HISTORY AND DEVELOPMENT

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The following chart sets out the corporate structure immediately after the Placing without taking into account the Shares to be allotted and issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme:



The following summarised the Company’s (and/or its predecessor’s) development since incorporation and its respective achievements:

Date	Major development and achievements
November 2004	Cheong Lee was incorporated under the former name “Cheong Lee Securities Company, Limited”
November 2005	Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO
June 2007	Ms. Au acquired 90% of the issued share capital of Cheong Lee from the original shareholder, being an Independent Third Party

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## HISTORY AND DEVELOPMENT

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September 2007	Cheong Lee tapped into the underwriting and placing business
December 2007	Ms. Au acquired the remaining issued share capital of Cheong Lee
January 2008	Name changed to “Cheong Lee Securities Limited”
February 2008	Cheong Lee obtained the re-issued Exchange Participant certificate and Exchange trading right from the Stock Exchange after the change of name
April – May 2008	Cheong Lee increased its throttle rate from 3 to 5
April 2009	Cheong Lee established the equity capital market department
August 2009	Cheong Lee was registered with the SFC as a licensed corporation to carry on Types 2 (dealing in futures contracts) and 5 (advising on futures contracts) regulated activities under the SFO
October 2009	Cheong Lee was granted with the Futures Exchange Participant certificate and the Futures Exchange trading right from the Futures Exchange and the HKCC Participant certificate from HKCC
February – October 2009	Cheong Lee increased its throttle rate from 5 to 12
November 2009	A futures contract dealing system was installed to provide a platform for clients to conduct trades through the OAPI located at Cheong Lee’s premises
September 2010	Cheong Lee increased its throttle rate further from 12 to 14

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## BUSINESS

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The Group carries out its business through the Company's wholly-owned subsidiary, Cheong Lee, which is a corporation licensed under the SFO to conduct Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities. It is principally engaged in the provision of (i) securities, futures and options broking and trading; and (ii) placing and underwriting services. The Group also provides ancillary services including application for new issues and nominee services such as collection of cash and scrip dividends. The Group's income mainly comprises: (i) commission income arising from the broking business of securities and futures dealing, which is recognised on a trade-date basis; (ii) underwriting commission income, sub-underwriting commission income, placing commission and related handling fee, which are recognised when the shares are allotted to the placees; (iii) interest income from IPO financing to its clients; and (iv) handling service fees and dividend collection fees, which are recognised when the agreed services have been provided. The Group currently operates one office.

### **Securities brokerage business**

The Group provides brokerage services to clients for trading in securities listed on the Stock Exchange. According to the information from the Stock Exchange, Cheong Lee was classified as a Constituency B Exchange Participant in the years 2008 and 2009 and in the six-month period ended 30 June 2010; and transaction fee and levy collected by Cheong Lee represented approximately 0.963% of the total of the industry as at 30 June 2010. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the total value of transactions in relation to dealing in securities, other than placing and underwriting, by Cheong Lee amounted to approximately HK\$220,489.7 million, HK\$402,321.1 million and HK\$116,875.7 million (of which, approximately HK\$14.0 million, HK\$32.8 million and HK\$2.0 million were generated from trading for Cheong Lee's own account and the Directors' accounts), which represented approximately 1.5%, 2.4% and 1.9% of the total trading value of securities on the Stock Exchange, respectively.

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## BUSINESS

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For the two years ended 31 March 2010 and the five months ended 31 August 2010, transaction value and commission income of the Group contributed by securities dealing transaction of (i) Ms. Au, the Controlling Shareholder, and her associates; (ii) the Directors; (iii) in-house employees; and (iv) account executives for themselves are set out as below:

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
<b>Ms. Au and her associates</b>			
Value of transactions ( <i>million</i> )	HK\$205,162.6	HK\$229,368.8	HK\$28,772.3
Commission income ( <i>million</i> )	HK\$12.4	HK\$8.9	HK\$1.6
Approximate percentage to the Group's total value of transactions	93.1%	57.0%	24.6%
Approximate percentage to the Group's total commission income from securities dealings	80.2%	29.8%	15.8%
<b>Directors</b>			
Value of transactions	–	HK\$40,680.0	–
Commission income	–	HK\$150.0	–
Approximate percentage to the Group's total value of transactions	N/A	0.00001%	N/A
Approximate percentage to the Group's total commission income from securities dealings	N/A	0.0005%	N/A
<b>In-house employees</b>			
Value of transactions ( <i>million</i> )	HK\$6.8	HK\$16.8	HK\$2.6
Commission income	HK\$8,588.0	HK\$20,823.0	HK\$3,818.0
Approximate percentage to the Group's total value of transactions	0.003%	0.004%	0.002%
Approximate percentage to the Group's total commission income from securities dealings	0.056%	0.070%	0.038%
<b>Account executives</b>			
Value of transactions ( <i>million</i> )	HK\$41.6	HK\$47.4	HK\$32.5
Commission income	HK\$42,490.0	HK\$76,636.0	HK\$46,223.5
Approximate percentage to the Group's total value of transactions	0.019%	0.012%	0.028%
Approximate percentage to the Group's total commission income from securities dealings	0.276%	0.259%	0.456%

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## BUSINESS

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Clients may place orders to the Group for securities trading through telephone calls or the Group's Internet platform or on-site at its office premises through the BSS. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the proportion of orders for securities trading placed through the BSS, telephone calls or the Group's Internet platform is set out as below:

	Year ended 31 March				Five months ended 31 August 2010	
	2009		2010			
	<i>% to total securities</i>		<i>% to total securities</i>		<i>% to total securities</i>	
	<i>% to total transaction value</i>	<i>brokerage and commission income</i>	<i>% to total transaction value</i>	<i>brokerage and commission income</i>	<i>% to total transaction value</i>	<i>brokerage and commission income</i>
BSS	98.70%	84.47%	98.64%	59.41%	96.25%	69.61%
Telephone calls	1.25%	14.89%	1.05%	36.93%	3.34%	25.64%
The Group's Internet platform	0.05%	0.64%	0.31%	3.66%	0.41%	4.75%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

As at the Latest Practicable Date, the Group charged its clients a fee at a range of between 0.01% and 0.25% of transaction value (subject to a minimum charge) for securities trading orders, which is determined based on the client's transaction value and regardless of whether orders are placed by means of telephone, the Group's Internet trading platform or on-site at its office premises. For individual clients with high trading volume who trade on-site and/or through telephone, a commission scheme whereby the client will be charged either by fixed commission or by 0.02% of the transaction value plus HK\$1,000 whichever is the lower.

The Group launched its Internet platform for securities trading in June 2008, which is not subject to any additional registration or licensing requirements pursuant to the Guidance Note on Internet Regulation (互聯網監管指引) released by the SFC in March 1999 (provided that such activities are not detrimental to the interests of the investing public in Hong Kong). For the five months ended 31 August 2010, the average utilisation rate of securities trading capacity of the Group in terms of throttle usage was approximately 1.2% calculated based on 382,752 orders placed in total divided by the Group's trading capacity of approximately 31,881,600 orders (which is product of 12 transaction orders per second and 2,656,800 trading seconds given its 12 throttle rates subscribed from the Stock Exchange and on the assumptions of 4.5 trading hours each day and 164 trade days).

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## BUSINESS

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As at 31 March 2009, 31 March 2010 and 31 August 2010, the Group had 175, 332 and 388 securities clients respectively. Of the 388 securities clients as at 31 August 2010, 64 are corporate clients and 324 are retail clients. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's five largest clients of its securities brokerage business in aggregate contributed approximately 88.6%, 61.1% and 72.9% respectively of its securities brokerage commission income. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's five largest clients of its securities brokerage business include CAAL Capital Limited ("CAAL", formerly known as Cheong Lee Capital Limited and is wholly owned by Ms. Au), and/or Chinacorp International Consultants Ltd. (中企國際顧問有限公司) ("Chinacorp", a company which was 100% held by Ms. Au Yu Siu, a niece of Ms. Au until her transfer of 50% interest to an Independent Third Party on 21 September 2009); and/or China Merit International Holdings Limited ("China Merit", a company wholly owned by Ms. Au). The largest clients of the Group's securities brokerage commission income for the two years ended 31 March 2010 and the five months ended 31 August 2010 are CAAL, Chinacorp and an Independent Third Party which contributed approximately 39.3%, 8.8% and 24.8% of the Group's securities brokerage commission income during the Track Record Period respectively.

Percentage of the Group's securities brokerage commission income attributable to (i) CAAL; (ii) Chinacorp; and (iii) China Merit, each of which is/was connected person of the Company, for the two years ended 31 March 2010 and the five months ended 31 August 2010 and at the same time they were one of the five largest customers are set out as below:

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
CAAL	39.3%	12.7%	15.2%
Chinacorp	22.5%	8.8%	—
		(note)	
China Merit	18.2%	—	—
Total	80.0%	21.5%	15.2%

*Note:* Chinacorp ceased to be a connected person of the Group after Ms. Au Yu Siu, a niece of Ms. Au, disposed 50% interest in Chinacorp to an Independent Third Party on 21 September 2009; and the transactions between Chinacorp and the Group since then no longer constitute connected transactions (as defined under the GEM Listing Rules) and relevant securities brokerage commission income was not taken into account in the above table.

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## BUSINESS

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For each of the two years ended 31 March 2010 and for the five months ended 31 August 2010, commission and brokerage derived from securities trading accounted for approximately 73.3%, 40.8% and 45.6% of the Group's total turnover respectively.

Securities brokerage commission income contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately 6.5%, 26.5% and 38.8% of the total securities brokerage commission income of the Group respectively.

### **Futures brokerage business**

The Group provides brokerage services to clients for trading in futures and options, such as HSI futures and options and mini-HSI futures and options on the Futures Exchange since January 2010.

Clients may place orders to the Group for futures trades through telephone calls or the Group's Internet platform or on-site at its office premises through the OAPI. For the year ended 31 March 2010 and the five months ended 31 August 2010, percentage of the Group's futures brokerage commission income generated (i) through telephone calls; (ii) through the Group's Internet platform; and (iii) on-site at the Group's office premises through the OAPI are set out as below:

	<b>Year ended 31 March 2010</b>	<b>Five months ended 31 August 2010</b>
Telephone calls	0.1%	0.1%
The Group's Internet platform	—	24.9%
The OAPI	99.9%	75.0%

During the Track Record Period, the Group charged its clients at fixed amount in the range from HK\$8 to HK\$100 per contract for trading of futures or options regardless of the method of placing orders, which is determined based on the nature of futures or options and/or whether it is a day trade or overnight trade. As confirmed by the Directors, the fee range has been adjusted to HK\$3 to HK\$100 per contract since October 2010.

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## BUSINESS

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As at 31 March 2009, 31 March 2010 and 31 August 2010, the Group had 0, 18 and 43 future clients respectively. Of the 43 futures clients as at 31 August 2010, 8 are corporate clients and 35 are retail clients. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's five largest clients of its futures brokerage business in aggregate contributed approximately nil, 99.9% and 96.4% of its futures brokerage commission income respectively. The largest client accounted for approximately nil, 62.5% and 58.8% of the Group's futures brokerage commission income respectively.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, commission and brokerage fees from dealing in futures and options contracts accounted for nil, approximately 1.8% and 3.0% of the Group's total turnover respectively.

Futures brokerage commission income contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately nil, 0.5% and nil of the total futures brokerage commission income of the Group respectively.

### **Placing and underwriting services**

The Group acts as an underwriter or a sub-underwriter or a placing agent or a sub-placing agent in IPOs and placing of existing and/or new shares and/or convertible bonds of companies listed on the Stock Exchange or on other stock exchange or shareholders of companies listed on the Stock Exchange. The placing or underwriting commission charged by the Group is subject to negotiation with the company concerned and is generally in line with market practice.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group generated commission income of approximately HK\$0.3 million, HK\$32.3 million and HK\$8.2 million, representing approximately 1.2%, 44.0% and 36.7% of the Group's total turnover, from 2, 32 and 12 fund-raising activities involving placing and/or underwriting amount of approximately HK\$35.8 million, HK\$1,231.6 million and HK\$388.5 million respectively. Revenue generated from the fund-raising activities participated by the Group on underwritten basis accounted for 100.0%, approximately 2.4% and nil of the total placing and underwriting commission income of the Group respectively. Revenue generated from the fund-raising activities participated by the Group on best effort basis accounted for nil, approximately 97.6% and 100.0% of the total placing and underwriting commission income of the Group respectively.

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## BUSINESS

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Placing and underwriting commission contributed by clients introduced by Ms. Au, the Controlling Shareholder, (other than Ms. Au and her associates) during the Track Record Period accounted for approximately 1.9%, 62.9% and 30.4% of the total placing and underwriting commission income of the Group respectively.

### **Financing**

The Group provides financing for applications of shares in connection with IPOs and derives interest income from its clients as a result. During the Track Record Period, the Group entered into framework agreements with several banks in Hong Kong to facilitate financing for applications of shares made by itself or its clients in connection with IPOs.

Management of the Group is required to assess the risk before providing IPO financing to clients based on various aspects including the business performance of the issuer, market response to the IPO and credit history and background of clients requesting for IPO financing. In addition, management of the Group would review the FRR position of the Group to ensure that it has sufficient liquid capital to comply with SFO requirements. Formal agreements will be entered into with the bank(s) each time when a loan is advanced and the Group will normally be required to pledge a deposit with the bank and subject to an interest rate for drawing down of loans. In turn, clients will repay the principal amount and higher interests to the Group for its arrangement of funding. As at the Latest Practicable Date, the Group had no outstanding amount of such bank loans.

As at the Latest Practicable Date, the Group maintained master staggering facility letters/term loan facility letter with three banks for the IPO financings. Pursuant to the master staggering facility letters, the bank may from time to time make short term Hong Kong dollar loans to the Group to finance in whole or part amounts (as the case may be) payable by the Group on applications to be made on the behalf of the Group or the clients of the Group (as the case may be) and in the name of the bank's nominee for shares, warrants and/or other securities to be listed on the Stock Exchange pursuant to a new issue or offer for sale to the public. In the event that the Group wishes to request for a loan, it shall make a loan request in the manner as prescribed under the agreement including specifying the amount of the loan, the rate of interest (subject to the bank's approval), the purpose of the loan, the repayment date, the shares, warrants and/or other securities to be financed by the loan and the date of the application for the relevant securities. The bank has the right to accept or reject a loan request. As one of the conditions precedent of advancing each loan, the Group shall execute a charge over the relevant securities in favour of the bank to secure the Group's obligations in respect of the relevant loan. The bank also has the right to require further security including a cash deposit as security for all sums owing in respect of the relevant loan. The loan will only be advanced in one lump sum.

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## BUSINESS

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Pursuant to the term loan facility letter, the bank may from time to time at its absolute discretion grant each term loan facility to the Group for the purpose of financing up to 90% (or such lower percentage as the bank in its absolute discretion determines) of the amount payable by the Group to the bank in relation to the specific application to be made on behalf of the Group in the name of the bank's nominee for subscription of a particular new issue share/warrant/bond/unit trust/investment fund or other exchange-traded instruments. The applicable interest rate to each drawing shall be set out in the specific application subject to the approval and variation of the basis of calculation of the interest rate by the bank. Subject to the compliance of all conditions precedent as set out in the letter and the specific application, the Group shall be deemed to have given a drawdown notice requesting for a lump sum drawing. All specific application will be irrevocable once given.

Under the master staging facility letters/term loan facility letter, if the application of the relevant securities is wholly or partly unsuccessful, the bank's nominee will hold all rights to the refund of the application money and pay the refunded amount to the bank and the balance (if any) to the Group in the manner as set out in the letter. Two of the above facilities are subject to review by the bank on a regular basis and may expire at any time after the review date.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, interest income derived from the Group's IPO financing business accounted for nil, approximately 0.41% and 0.01% of the Group's total turnover respectively. The Group has not made any provision for bad debts in relation to IPO financing during the Track Record Period.

While licences under the Money Lenders Ordinance (放債人條例) (Chapter 163 of the Laws of Hong Kong (香港法例)) are generally required for the type of financing services provided by the Group, the Group is exempted from such requirement as Cheong Lee, which provides such financing services to clients, is a corporation licensed to carry on a business in dealing in securities under Part V of the SFO which engages in securities margin financing in order to facilitate acquisitions or holdings of securities by the corporation for its client.

The Group also plans to develop margin financing activities to allow flexibility to clients by providing funds directly to them for purchasing securities on a margin basis. It intends to enter into the margin financing business in Hong Kong in March 2011 after Cheong Lee notifying the SFC in writing of its engagement in the margin financing business and provided the SFC with certain related documents for reference. Details of the business strategies of the Group to enter into the new margin financing business are set out in the paragraphs headed "Business strategies" and "Implementation plans" under the section headed "Future plans and prospects" in this prospectus.

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A breakdown on turnover by major services provided by the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010 is set out as below:

	Year ended 31 March				Five months ended 31 August			
	2009		2010		2009		2010	
	Turnover		Turnover		Turnover		Turnover	
	(in HK\$)	%	(in HK\$)	%	(in HK\$)	%	(in HK\$)	%
					(unaudited)			
Commission and brokerage								
fees from securities dealings								
on the Stock Exchange	15,442,656	73.3	29,941,974	40.8	13,567,071	44.3	10,127,250	45.6
Commission and brokerage fees								
on dealing in futures contracts	–	n/a	1,317,406	1.8	–	n/a	668,040	3.0
Placing and underwriting								
commission	262,781	1.2	32,288,270	44.0	12,701,250	41.4	8,157,040	36.7
Clearing and settlement fee	4,479,671	21.3	8,219,488	11.2	3,906,995	12.7	2,405,122	10.8
Handling service and dividend								
collection fees	375,288	1.8	457,195	0.7	209,363	0.7	173,560	0.8
Interest income from								
authorised financial								
institutions/clients/others	509,026	2.4	1,096,432	1.5	271,405	0.9	699,590	3.1
Total turnover	<u>21,069,422</u>	<u>100.0</u>	<u>73,320,765</u>	<u>100.0</u>	<u>30,656,054</u>	<u>100.0</u>	<u>22,230,602</u>	<u>100.0</u>

Commission and brokerage from securities dealings generated by the Group increased by approximately 93.9% from approximately HK\$15.4 million to HK\$29.9 million for the year ended 31 March 2010 along with the gradual recovery of the global economy from financial tsunami. Commission and brokerage generated from this sector as well as placing and underwriting commission for the five months ended 31 August 2010 both reduced, by approximately 25.4% and 35.8% to approximately HK\$10.1 million and HK\$8.2 million respectively due to less active securities market as compared to the corresponding period in 2009. Whilst commission and brokerage from securities dealings remains to be a stable source of income to the Group given its solid securities clientele developed over the years, the Group strives to expand its placing and underwriting business and as a result, placing and underwriting commission increased largely during the Track Record Period without sacrificing the securities brokerage business.

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### Commission and fee

Charging basis (subject to adjustments after arm's length negotiation with clients) of major services provided by the Group for the two years ended 31 March 2010 and the five months ended 31 August 2010 are set out as below:

	2009	Year ended 31 March 2010	Five months ended 31 August 2010
Securities brokerage commission	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower	(i) 0.01% to 0.25% of transaction value (subject to a minimum charge) or (ii) 0.02% of transaction value plus HK\$1,000 or a fixed charge per month whichever is the lower
Futures brokerage commission	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100	Day trade HK\$8 – HK\$60  Overnight trade HK\$12 – HK\$100
Underwriting commission	0.25% – 4%	1% – 4%	n/a (Note 1)
Sub – underwriting commission	1% – 4%	n/a (Note 2)	n/a (Note 1)
Placing commission and related handling service fees	n/a (Note 3)	1% – 4%	1% – 4%
IPO financing interest	1% – 3%	n/a (Note 4)	1% – 3%
Handling services fees (including services fees for handling IPO applications, transmission and chats of funds, reprinting invoices, refund cheques, stamp duty for bought and sold notes and real time quotations)	Fixed charge on one time basis or on monthly basis depending on nature of handling services	Fixed charge on one time basis or on monthly basis depending on nature of handling services	Fixed charge on one time basis or on monthly basis depending on nature of handling services
Dividend collection fees	0.3% of the dividend amount subject to a minimum charge	0.3% of the dividend amount subject to a minimum charge	0.3% of the dividend amount subject to a minimum charge

- Notes:**
- There were only placing activities conducted on best effort basis by the Group for the five months ended 31 August 2010.
  - No sub-underwriting income was generated by the Group during the year ended 31 March 2010.
  - No placing income was generated by the Group during the year ended 31 March 2009.
  - No IPO financing conducted by the Group during the year ended 31 March 2010.

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### LICENCES AND TRADING RIGHTS

Cheong Lee was registered with the SFC as an investment adviser and a dealer under the SFO for securities and futures contracts in November 2005 and August 2009 respectively. Cheong Lee is licensed to carry on Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities. Under the SFO, a licensed corporation shall not carry on any regulated activity unless not less than two Responsible Officers are approved by the SFC in relation to the regulated activity. From 16 October 2009 to 27 October 2009, Cheong Lee had only one Responsible Officer carrying Type 2 (dealing in futures contracts) licence; and from 16 October 2009 to 13 September 2010, Cheong Lee had only one Responsible Officer carrying Type 5 (advising on futures contracts) licence. As confirmed by the Directors, Cheong Lee did not carry out any Type 2 or Type 5 regulated activities during the respective shortfall period. The SFC had been advised of the shortfall situation and was fully aware of Cheong Lee's process in re-complying with the relevant requirements. The Directors confirmed that Cheong Lee has not less than two Responsible Officers in relation to each of the above four regulated activities as at the Latest Practicable Date. The Directors also confirmed that Cheong Lee maintained the required paid-up share capital and liquid capital under the FRR in order to engage in each of the above four regulated activities as at the Latest Practicable Date. The following table sets out the identities of the Responsible Officers for each of the Group's regulated businesses during the Track Record Period:

	2009	Year ended 31 March 2010	Five months ended 31 August 2010	From 1 September 2010 to the Latest Practicable Date
Type 1 (dealing in securities) regulated activity				
	Chow Ka Man (resigned on 7 April 2008)	Man Kam Cheuk (since 28 October 2009)	Man Kam Cheuk (resigned on 30 June 2010)	–
	Lam Wing Hi (since 29 May 2008)	Lam Wing Hi	Lam Wing Hi (resigned on 9 July 2010)	–
	Yu Linda (since 13 May 2008)	Yu Linda	Yu Linda	Yu Linda
	Chau Yueh Jen	Chau Yueh Jen (resigned on 16 January 2010)	Kwok Kin Chung (since 30 June 2010)	Kwok Kin Chung
	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali

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	2009	Year ended 31 March 2010	Five months ended 31 August 2010	From 1 September 2010 to the Latest Practicable Date
Type 2 (dealing in futures contracts) regulated activity	–	Lau Ka Lung Ali (since 27 August 2009)	Lau Ka Lung Ali	Lau Ka Lung Ali
	–	Man Kam Cheuk (since 28 October 2009)	Man Kam Cheuk (resigned on 30 June 2010)	–
	–	–	Lam Wing Hi (from 23 June 2010 to 9 July 2010)	–
	–	–	Kwok Kin Chung (since 30 June 2010)	Kwok Kin Chung
Type 4 (advising on securities) regulated activity	Chow Ka Man (resigned on 7 April 2008)	Yu Linda (since 8 July 2009)	Yu Linda	Yu Linda
	Lam Wing Hi (since 23 September 2008)	Lam Wing Hi	Lam Wing Hi (resigned on 9 July 2010)	–
	Chau Yueh Jen	Chau Yueh Jen (resigned on 16 January 2010)	Kwok Kin Chung (since 14 September 2010)	Kwok Kin Chung
	Fung Man Chun	Fung Man Chun	Fung Man Chun	Fung Man Chun (resigned on 1 December 2010)
	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali	Lau Ka Lung Ali
Type 5 (advising on futures contracts) regulated activity	–	Lau Ka Lung Ali (since 27 August 2009)	Lau Ka Lung Ali	Lau Ka Lung Ali
			Kwok Kin Chung (since 14 September 2010)	Kwok Kin Chung

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The following table sets out the licences and trading rights held by the Group, its manpower involved and system/hardware equipped as at the Latest Practicable Date for carrying out each regulated activity:

	Type 1 (dealing in securities)	Type 2 (dealing in futures contracts)	Type 4 (advising on securities)	Type 5 (advising on futures contracts)
Relevant licenses or trading rights	SFC Type 1 licence Stock Exchange Trading Right Certificate Stock Exchange Participant Certificate HKSCC Direct Clearing Participationship	SFC Type 2 licence Futures Exchange Trading Right Certificate Futures Exchange Participant Certificate HKCC Participationship Certificate	SFC Type 4 licence	SFC Type 5 licence
Manpower involved	3 Responsible Officers who hold SFC Type 1 licence and have experience of approximately 5 to 10 years in securities industry 2 dealing staff who are degree holders with experience of approximately 1 to 3 year(s) in securities industry 5 account executives whose experience varies from approximately 1 to 7 year(s) and majority of whom are degree holders 2 sales and marketing staff who are degree holders with experience varying from approximately 1 to 2 year(s)	2 Responsible Officers who hold SFC Type 2 licence and have experience of approximately 5 to 10 years in futures industry 2 dealing staff who are degree holders with experience of approximately 1 to 3 year(s) in futures industry 2 account executives whose experience varies from approximately 1 to 4 year(s) and are degree holders 2 sales and marketing staff who are degree holders with experience of approximately 1 year	3 Responsible Officers who hold SFC Type 4 licence 2 dealing staff who are degree holders with experience of approximately 1 to 3 year(s) in securities industry 2 account executives with experience of approximately 1 to 2 year(s) in securities industry and are degree holders 2 sales and marketing staff who are degree holders with experience varying from approximately 1 to 2 year(s)	2 Responsible Officers who hold SFC Type 5 licence and have experience of approximately 5 to 10 years in futures industry 2 dealing staff (since October 2010) who are degree holders with experience of approximately 1 year in futures industry

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	Type 1 (dealing in securities)	Type 2 (dealing in futures contracts)	Type 4 (advising on securities)	Type 5 (advising on futures contracts)
System or hardware equipped	1 multiple work station server 3 OG server 3 application servers 1 settlement server system (BSS) multiple work station systems supplied by eBroker Systems Limited servers (BSS) supplied by Ayers Solutions Limited for trial	1 network gateway server 1 application server 1 settlement server system (OAPI) supplied by eBroker Systems Limited 1 click station	N/A	N/A

Cheong Lee is a Constituency B Exchange Participant and competes mainly with local small and medium sized brokerage firms of Category B in Hong Kong. In 2009, according to the information provided to the Company by the Stock Exchange, its position amongst the Exchange Participants was 22 out of 454 and its market share was approximately 1.25% based on trading fee, transaction levy and investor compensation levy (if applicable). As at the Latest Practicable Date, the Group held the following licences, certificates and participantship to carry on the business activities as described in this prospectus. Each of the licences, certificates and participantship does not specify an expiry date.

<b>Licence/certificate/participantship</b>	<b>Date of issue/admission/ re-issue/renewal</b>
Licence under SFO to carry on Types 1 (dealing in securities) and 4 (advising on securities) regulated activities	24 November 2005
Licence under SFO to carry on Types 2 (dealing in futures contracts) and 5 (advising on futures contracts) regulated activities	27 August 2009
Stock Exchange Trading Right Certificate	11 February 2008
Stock Exchange Participant Certificate	11 February 2008
HKSCC Direct Clearing Participantship	24 November 2005
Futures Exchange Trading Right Certificate	12 October 2009
Futures Exchange Participant Certificate	12 October 2009
HKCC Participant Certificate	12 October 2009

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The Directors confirmed, and the legal advisers of the Company as to Hong Kong law advised, that the Group obtained all the necessary licences and participantships which are required to carry on the Group's activities as set out in this prospectus as at the Latest Practicable Date. Since its establishment and as confirmed by the Directors, Cheong Lee has been able to obtain its relevant licences and participantships; and has not failed/received any objection from the SFC or other relevant competent authorities during renewal of licenses and participantships. All staff members currently performing regulated activities are properly registered under the SFO as either Licensed Representatives or Responsible Officers.

Except the late notification (notification on 12 October 2007) by Cheong Lee to the SFC on the change of its share capital (effective from 14 September 2007) which was beyond the required seven-day notice period under the SFO and Securities & Futures (Licensing and Registration) (Information) Rules, the Directors confirm that (i) the Group has obtained all licences, permits or certificates necessary to conduct its operations from the relevant governmental bodies in the jurisdictions where the Group operates, and that the Group has been and is in full compliance with all applicable laws and regulations, and codes in all material respects, in the performance of its relevant business in all jurisdictions where it operates since its establishment; and (ii) the Group (including its predecessor companies) has not committed any offence, violation or breach of laws or regulations in all jurisdictions where it operates.

### SALES AND MARKETING

The Group's sales and marketing team is responsible for opening client accounts and handling clients' enquiries. As at the Latest Practicable Date, the Group's sales and marketing team comprises a Responsible Officer, an associate director and 5 account executives who are responsible for taking orders placed by clients and providing investment advice when required. Activities of account executives are closely monitored at all times on a real time basis through the Group's computer system by the Responsible Officer as well as its settlement department. All dealing transactions performed by account executives are monitored and reviewed by the Responsible Officer on daily basis. Any unusual trading activities will be immediately reported to the Responsible Officer, and appropriate actions will be taken. Client account openings are processed by licensed staff of customer service and approved by the Responsible Officer.

The Group from time to time advertises on newspapers in Hong Kong to enhance public awareness towards its brand and services. It also sponsors charity functions such as golf competitions for charity purpose. Through the company website, both the existing and prospective clients can obtain detailed information on the Group's services. The Group's experienced sales and marketing team also regularly contacts clients to maintain good business relationship and to expand network by soliciting new clients through referrals from existing clients.

Going forward, the Directors believe that the Group will continue to assist clients in making investment decisions under different market conditions to maximise their returns and the Listing will help to promote the Group's corporate image and to enhance public awareness towards its services, which will enable it to attract more customers and enrich its client profile.

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### CLIENT MIX

Clients of the Group's brokerage business comprise corporate and retail clients from Hong Kong and the PRC. Clients of the Group's underwriting and placing business are companies listed on the Main Board or GEM or on other stock exchange or shareholders of companies listed on the Stock Exchange.

With its competitive brokerage commission rates and efficient services, the Group's client base has experienced a significant growth since 2008. 18, 24 and 28 new brokerage clients were originated by the account executives; and 55, 155 and 57 new brokerage clients were originated by the in-house employees or walk in clients or clients referred by existing clients respectively for the two years ended 31 March 2010 and the five months ended 31 August 2010. A client that is originated by an account executive or in-house employee will be managed and served by the respective account executive or in-house employee. For walk-in clients and clients referred by the existing clients, such accounts will be managed and served by in-house employees. All new clients of the placing and underwriting business during the Track Record Period were originated by in-house employees. Movements of the Group's retail and corporate clients including number of new trading accounts opened and trading account closed during the Track Record Period and the number of the Group's corporate clients which the Group had provided placing and underwriting services during the Track Record Period are shown as below:

	Year ended 31 March		2010		Five months ended		From 1 September 2010 to the Latest Practicable Date	
	2009	Number of	2010	Number of	31 August 2010	Number of	Number of	Number of
	Number of	corporate	Number of	corporate	Number of	corporate	Number of	Number of
	retail clients	clients	retail clients	clients	retail clients	clients	retail clients	corporate clients
Securities trading								
– at the beginning of								
the financial year/period	81	21	145	30	276	56	324	64
– new accounts opened	64	9	135	26	50	10	136	25
– accounts closed	–	–	(4)	–	(2)	(2)	(13)	(2)
– at the end of the financial								
year/period	145	30	276	56	324	64	447	87
Futures trading								
– at the beginning of								
the financial year/period	–	–	–	–	10	8	35	8
– new accounts opened	–	–	10	8	25	–	8	2
– accounts closed	–	–	–	–	–	–	–	–
– at the end of the financial								
year/period	–	–	10	8	35	8	43	10
Placing and underwriting								
– at the end of the financial								
year/period	–	2	–	18	–	9	–	11

#### Notes:

1. If a client has both a securities trading account and a futures trading account with the Group, this client will be recognised as two clients in the table above and in the other relevant part(s) of this prospectus. For the two years ended 31 March 2010 and the five months ended 31 August 2010, there were nil, 18 and 43 clients having both securities trading account and futures trading account with Cheong Lee.
2. Number of clients for the placing and underwriting business shown in the above table represents the number of clients to which the Group had provided placing and underwriting services during the relevant financial period.

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Breakdown of the Group's clients including both retail and corporate clients of brokerage business segments by transaction frequency, transaction volume and commission income during the Track Record Period are shown as below:

### Number of clients by transaction frequency

	Year ended 31 March			Five months ended 31 August 2010
	2009	2010		
No purchase and/or sale of securities/futures transaction	80	145	No purchase and/or sale of securities/futures transaction	268
At least 1 purchase and/or sale of securities/futures transaction (i.e. at least 1 transaction per annum on average)	8	7	At least 1 purchase and/or sale of securities/futures transaction	35
At least 2 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per half year on average)	14	23		–
At least 4 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per quarter on average)	28	56		–
At least 12 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per month on average)	45	119	At least 5 purchases and/or sales of securities/futures transactions (i.e. at least 1 transaction per month on average during the period)	128
	<u>175</u>	<u>350</u>		<u>431</u>

Despite the fact that the total number of the Group's clients by transaction frequency increased from 350 for the year ended 31 March 2010 to 431 for the five months ended 31 August 2010, the number of the Group's clients who performed at least 1 purchase and/or sale of securities/futures transaction decreased from 205 for the year ended 31 March 2010 to 163 for the five months ended 31 August 2010.

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### Number of clients by transaction volume

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
Less than or equal to HK\$100,000	120	219	325
HK\$100,001 to HK\$500,000	13	19	26
HK\$500,001 to HK\$1,000,000	5	12	11
HK\$1,000,001 to HK\$5,000,000	11	25	24
HK\$5,000,001 to HK\$10,000,000	4	21	8
Over HK\$10,000,000	22	54	37
	<u>175</u>	<u>350</u>	<u>431</u>

### Number of clients by commission income

	Year ended 31 March		Five months ended
	2009	2010	31 August 2010
Less than or equal to HK\$10,000	149	275	382
HK\$10,001 to HK\$50,000	11	39	30
HK\$50,001 to HK\$100,000	5	7	4
HK\$100,001 to HK\$500,000	6	20	10
Over HK\$500,000	4	9	5
	<u>175</u>	<u>350</u>	<u>431</u>

As a result of the expansion of its client base and in order to better serve its clients' needs, the number of employees has also increased. As at 31 March 2009, the Group had a total of 12 full time employees, including 5 Responsible Officers and 3 Licensed Representatives, together with 9 account executives who were also Licensed Representatives. As at 31 March 2010, the Group had a total of 14 full time employees, including 5 Responsible Officers and 4 Licensed Representatives, together with 10 account executives who were also Licensed Representatives.

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Clients are served by the Group's employees or account executives engaged by the Group, who are responsible for introducing clients and business to Cheong Lee and carrying out sales and dealing procedures on behalf of Cheong Lee. Account executives are not considered as the Group's employees during the Track Record Period as they were not under employment contracts with the Group and were not entitled to any monthly fixed salary or employee benefit. Each account executive is responsible for a portfolio of clients whom they serve personally while clients originated by the Group are served by members of the house team. There is no major difference between account executives and in-house employees in terms of academic and professional qualifications as well as license status since majority of both in-house employees and account executives are degree holders and all of them fulfilled the requirements for the licensed person carrying on regulated activities.

### MAJOR CLIENTS AND SUPPLIERS

For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's largest client accounted for approximately 28.8%, 10.9% and 11.3% of the Group's total turnover respectively. The Group's top five largest clients, in aggregate, accounted for approximately 65.0%, 39.5% and 40.0% of the Group's total turnover respectively.

Except for CAAL and China Merit both are wholly owned by Ms. Au, none of the Directors or their respective associates or the existing Shareholders who own more than 5% of the Company's issued share capital, has any interest in any of the Group's five largest clients. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's turnover attributable to CAAL amounted to approximately HK\$6.1 million, HK\$3.8 million and HK\$1.5 million, representing approximately 28.8%, 5.2% and 6.9% of the Group's total turnover, respectively; and the Group's turnover attributable to China Merit amounted to approximately HK\$2.8 million, HK\$2.4 million and HK\$38,380, representing approximately 13.3%, 3.2% and 0.2% of the Group's total turnover, respectively.

Due to the nature of its principal business activities, the Group has no major suppliers. The Group engages IT vendors which facilitate the operation of its trading platform and the provision of securities market information and price quotations. None of the Directors or their respective associates or the existing Shareholders who own more than 5% of the Company's issued share capital, has any interest in any of the Group's IT vendors.

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## BUSINESS

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### COMPETITION

The Directors believe that competition can come from licensed corporations carrying on the same types of regulated activities as the Group. As at 31 December 2010, there were respectively a total of 836, 246, 838 and 132 licensed corporations which were accredited to conduct Types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities) and 5 (advising on futures contracts) regulated activities in Hong Kong. As at 31 January 2011, there were a total of 518 Exchange Participants and 178 Futures Exchange Participants; 487 and 178 of which were trading participants while the remaining 31 and nil were non-trading participants in the securities and futures industry in Hong Kong respectively.

Both local and international licensed corporations compete for fees and commissions. Since 1 April 2003, minimum brokerage commission rates in respect of securities and commodities trading in Hong Kong have been deregulated, and therefore brokerage commissions are subject to market forces and negotiations with clients and may become susceptible to downward pressure from time to time. Market players have to adapt to this more competitive commission regime. Apart from pricing, the Group also competes on client relationship, name recognition, resources and technical competence.

The Directors are of the view that the Group makes every effort to compete effectively by striving to stay in touch with the market to understand clients' needs and tactics of its competitors, seeking to capture new clients and satisfy the requirements from existing clients by delivering services up to their expectations, recruiting and retaining experienced staff in order to provide quality services to clients, maintaining suitable professionals and management personnel to improve corporate control, IT infrastructure, marketing strategies and technical expertise so as to cater any changes in market conditions and finally, maintaining an efficient and lean cost structure in order to maximise Shareholders' returns.

As at the Latest Practicable Date, Cheong Lee's paid-up share capital of HK\$40.0 million has exceeded the minimum requirement of HK\$5.0 million for its existing business activities and even exceeded the minimum requirement of HK\$10.0 million for the margin finance business has yet to be developed. The Directors believe that the Group's financial strength will be further enhanced with funds to be raised from the Placing and after the Listing, it will be able to access to the secondary fund-raising market in Hong Kong, and as and when necessary obtain funding from financial institutions on relatively favorable terms with its listing status; such that its overall financial strength would become more comparable to a few small and medium sized listed companies which involve in brokerage business in Hong Kong and are the major competitors of the Group. The Directors are confident that the Listing will have positive impact on the Group's brand image and the Group will continue enhancing public awareness towards its services and brand thereafter in particular, through opening a new branch office for greater market exposure to retail clients and for client relation activities carried out by its experienced sales and marketing team.

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## BUSINESS

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### COMPETITIVE STRENGTHS

The Directors are of the view that the Group generally has the following competitive advantages:

#### **Management experience and expertise**

The Group is managed by a team of experienced professionals who formulate corporate strategies, monitor compliance and day-to-day operations and implement plans for business development. The management team comprises mainly Responsible Officers and persons with over five years of experience in the securities dealing and financial services industry. With the extensive experience and knowledge of the management team, the Group is able to react promptly to changes of market conditions and implement suitable measures in accordance with changing credit risks. Please refer to the section headed “Directors, senior management and staff” of this prospectus for further details on the experience of the Directors and senior management.

#### **Well-established relationship with clients and expanding customer base**

The Group recognises that market reputation and clients’ confidence in its services are keys to success, which will enable the Group to attract new clients from the market and solicit client referrals from its existing clients. In this regard, the Group places great emphasis on winning customer loyalty by providing them with tailor made services, for instance, modifying computer screen interface for retrieving securities market information in accordance with clients’ requirements and keeping clients abreast of market development by giving them access to real-time market information and price quotations from external securities market information service providers. With its continuous effort, the Group has successfully retained existing clients and attracted new clients and gradually developed a more diversified client base over the years.

#### **Solid platform for placing and underwriting business**

The Group’s placing and underwriting business can leverage on its extensive securities client network which comprises institutional investors and retail clients. It also maintains good relationship with other brokerage firms which may provide opportunities to the Group to act as sub-underwriters or sub-placing agents for various new issues and fund-raising exercises in the market. The Group has also successfully retained several companies listed on the Main Board or GEM or on other stock exchange or shareholders of companies listed on the Stock Exchange in its client base, such that they or their shareholders may consider appointing the Group as the placing agent, sub-placing agent, underwriter, or sub-underwriter when they have funding requirements.

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### Advanced computer system and technology

The Group invests in the upgrading of its computer system to enhance the technological infrastructure to meet clients' increasing needs and in an attempt to stay ahead when technological upgrades for securities trading are introduced to the market. The Group has established stable and efficient online trading platform for its clients to access the securities market. Both its BSS and OAPI trading systems are equipped with the powerful and advanced IT infrastructures, servers and terminals as well as tailor-made computer screen interfaces for retrieving securities market information to suit clients' different requirements.

### Capable professional

As at the Latest Practicable Date, the Group has 5 account executives serving 66 trading accounts and 7 in-house employees serving 521 trading accounts. The account executives carry out securities sales on behalf of Cheong Lee and serve clients of his/her own portfolio. Most of the Group's account executives are degree holders with over 1 to 6 years experience in the securities industry and have been with the Group for more than one year. The Group has regularly provided professional training to its account executives. The Directors believe that the solid client base is built up by the Group's account executives over the years. Movements of account executives of the Group during the Track Record Period are as below:

	For the year ended 31 March		For the five months ended 31 August 2010	From 1 September 2010 to the Latest Practicable Date
	2009	2010	2010	
Number of account executives brought forward	1	9	10	9
New appointment	8	1	2	1
Leave <i>(note)</i>	0	0	(3)	(5)
Number of account executives	9	10	9	5

*Note:* One account executive during the five months ended 31 August 2010 and one account executive during the period from 1 September 2010 to the Latest Practicable Date became an in-house employee of Cheong Lee.

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Account executives are not considered as the Group's employees during the Track Record Period as they were not under employment contracts with the Group but they entered into account executive agreements with Cheong Lee. Pursuant to the agreements, Cheong Lee engaged account executives on full commission basis without any contractual fixed remuneration package. The account executives were not entitled to any employee benefit. As such, the Group would be able to minimise unpredictable business risk, in particular, during downturn of the securities markets. The account executives maintain the relevant licence(s) with Cheong Lee only and thus, they should conduct the relevant regulated activity(ies) exclusively on behalf of Cheong Lee. Account executive(s) should be liable to compensate for any loss incurred as a result of his/their misconduct/fraudulent acts. Under such circumstances, clients may claim against Cheong Lee for compensation; and the relevant account executive shall indemnify Cheong Lee and keep it indemnified against such claims and losses. Details of the control policies and measures to monitor the securities dealing activities of the Group are set out in the paragraphs headed "Segregation of duties" under the sub-section headed "Internal Control" of this section.

For the two years ended 31 March 2010 and the five months ended 31 August 2010, the contribution from account executives to the Group's total value of transactions in relation to dealing in securities amounted to approximately HK\$96.2 million, HK\$318.5 million and HK\$241.3 million, representing approximately 0.04%, 0.08% and 0.21% of the Group's total value of transactions, respectively. The brokerage commission income from the account executives amounted to approximately HK\$0.2 million, HK\$0.6 million and HK\$0.5 million, representing approximately 1.4%, 2.0% and 4.4% of the Group's total securities brokerage income, respectively.

### CREDIT CONTROL AND RISK MANAGEMENT

Clients are assigned a trade limit to reflect the degree of risk that they intend to take after considering clients' background and investment experience. Trade limits are subject to the approval from the Responsible Officer in charge.

Client receivables for dealings in securities are settled on T+2 whereas client receivables for dealings in futures contracts are settled on T+1. The Group has from time to time identified those receivables which are not properly settled on the prescribed settlement basis. Calls will be made by handling persons for settlement of overdue amounts of receivables. For prolonged overdue receivables, information will be referred to and reviewed by the management who will decide the appropriate follow-up actions. Trade receivables that are considered uncollectible will be written off.

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No trading activities of a particular client would be allowed if his cash position is negative. The Responsible Officers are responsible for monitoring clients' securities and cash positions to ensure no short sales transaction. Regulated activities of Cheong Lee are covered by license holders indemnity insurance in an aggregate amount of HK\$15.0 million for a period from 1 April 2010 to 31 March 2011 for third parties liabilities or failure to complete transactions as stipulated in the insurance policy as required under the Securities and Futures (Insurance) Rules (證券及期貨(保險)規則).

### **Operational control**

The Group's operation manual covers controls on different aspects of its business operations including but not limited to client accounts operation, order execution, client settlement as well as BSS and OAPI and settlement system operations.

#### ***Client accounts operation***

The operation manual specifies the criteria that must be satisfied by an individual or corporation who wishes to open an account with Cheong Lee. Account executives and in-house employees must gather relevant documents from the clients and the settlement department would check the adequacy of information provided. Clients account documents should be kept and stored in a locked cabinet and should only be accessed by authorised personnel. Operation of an account by a person other than the account holder is discouraged unless proper authorisation could be obtained from client and such account will be renewed on an annual basis depending on whether the client wishes to continue to effect such authorisation.

#### ***Order execution***

No trading order through telephone is accepted unless identity of the client could be verified. Account details such as client name or account number should always be identified at the time of placing orders to the dealer or entering into the BSS or the OAPI. When an account executive or in-house employee receives order from clients, he/she should check trading limit or funds available to cover the order before placing the order through the trading system. For orders placed to dealers verbally, a buy/sell ticket should be prepared with time chopped and passed to the dealer, who would then record the order on dealing record sheet and place the order through trading system.

#### ***Client settlement***

Account executives and in-house employees who serve trading accounts are not allowed to process settlement to ensure proper segregation of duties. Cheong Lee is obliged to ensure that transfer deeds are properly executed for selling orders. Statement on the date where a transaction is carried and monthly statements should be sent to clients for their information on movement of funds and stock positions.

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### ***BSS, OAPI and settlement system operations***

The settlement department downloads closing price from the Stock Exchange and uploads to the back office settlement system after market closes each trading day. Trades of the day would then be exported from the BSS and the OAPI to the back office settlement system for matching process. Reports will be generated for reconciliation and audit trail. Back-up of transactions data is automatically performed by the system on a daily basis.

### **Data protection**

System users are assigned different levels of access authority according to their ranking and needs. They are required to keep each password confidential and reset of passwords can only be performed by the system administrator. Management is responsible for reviewing the access authorities periodically and any changes in access rights must be approved by the management. For IT vendor who can remotely access the system, a timetable for remote access should be obtained and any urgent repairs must be approved by a Responsible Officer. Back-ups of all clients' transactions are kept for at least seven years and will be in a place outside the office premises to be identified by the Group.

### **Risk management**

A credit committee comprising three Responsible Officers, namely Mr. Kwok Kin Chung, Mr. Lau Ka Lung Ali and Mr. Lau Kin Hon and the Finance Manager, namely Mr. Chan Kam Wah has been established. Please refer to the sub-sections headed "Executive Directors" and "Senior management" under the section headed "Directors, senior management and staff" of this prospectus for details of their expertise and professional qualifications. The credit committee carries out the functions of approving and reviewing trading limit of clients according to the delegated line of authority, approving margin ratio, overdue interest rate and/or granting waiver for overdue interest, approving share placement transactions, and making decision on liquidation of client's stock. Any member of the credit committee who is involved in decision making process for operational matters (for example, approving or annual reviewing credit limit or deciding on whether to give tolerance to clients who fail to meet margin calls, etc) shall abstain from making decisions on such matters. No trading activities of a client would be allowed if his cash position is negative.

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Account executives and in-house employees serving trading accounts should review and monitor client transactions, identify and report any discrepancy in the daily report to the settlement department. Responsible Officer is responsible for monitoring clients' securities and cash positions to ensure no short sales transaction; and reviewing client outstanding position and portfolio on a daily basis. Responsible Officer will recommend actions to be taken having considered various factors such as account valuation status, past settlement record and quality of securities held. Cheong Lee has the right to sell custodians stock of relevant clients at any time to settle the outstanding amount. For futures contracts dealings, only clients who have good trading record in securities dealings are allowed to open an account. Responsible Officers and/or the settlement department would review futures clients' accounts from time to time to ensure margin clients maintain sufficient funds for settlement. Cheong Lee would only provide IPO financing to clients who have placed sufficient cash deposit as required by Cheong Lee. For IPO financing and the new margin financing business, Cheong Lee has the right to sell the stock of clients to cover any unsettled position.

### **Anti-money laundering**

The Group has adopted policies and procedures in its operation manual to identify and detect money laundering activities, which include the following:–

- (i) Customer due diligence – Staff is required to
  - (a) identify the customer, i.e. know who the individual or legal entity is;
  - (b) verify the customer's identity using reliable source documents, data or information;
  - (c) identify and verify beneficial ownership and control and/or the person on whose behalf a transaction is being conducted; and
  - (d) conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with their knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer's source of funds;

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- (ii) Retention of Records – Staff is required to
  - (a) maintain all necessary records on transactions, both domestic and international, for at least seven years; and
  - (b) keep records on customer identification, account files and business correspondence for at least five years after the account is closed;
- (iii) The Company provides anti-money laundering and anti-terrorist financing training to staff at regular intervals; and
- (iv) Staff are required to report any suspicious transactions directly to the Compliance Officer or a Responsible Officer for further action.

The Directors confirmed that during the Track Record Period, the Group has not reported any suspected or actual cases of money laundering to the Joint Financial Intelligence Unit (聯合財富情報組).

### **Budget planning and IPO financing control**

In addition, the Group intends to appoint an external professional to perform compliance review over the finance function of the Group; and the Finance Manager of the Group will prepare annual budget as a control for evaluating financial performance and review the actual figures annually after Listing. The Group has included detailed investment plan and procedures, IPO financing procedures and other compliance procedures in its new operation manual which has already been adopted. Authority limits for granting approvals on investment plans will be assigned to members of senior management; and prior approval(s) from management with proper signing authority must be sought for any investment plan. One of the Responsible Officers will be responsible for reviewing and approving daily statements of house account. The Group will determine the scale of IPO financing after discussion among the management before the IPO financing applications. Once the subscription is over the scale, the Group will cease the IPO financing activity immediately.

### **INTERNAL CONTROL**

Cheong Lee has adopted its operation and risk control manuals, setting out proper policies and procedures to detect and prevent fraud and misconduct by employees, account executives and third parties. Management and the compliance department of the Group will periodically review the policies and procedures to identify weaknesses and address them by updating the manuals. The compliance unit is independent from other departments of the Group and directly reports to the Board. Its mission is to ascertain proper monitoring and enforcement on the SFC regulations and internal policy and procedures.

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The Group has engaged an internal control auditor to prepare an internal control review on the Group. Following such review, the Group has adopted a revised operation manual which has included recommendations from the internal control auditor. Findings and material deficiencies identified in the internal control review report and the procedures adopted by the Group in the revised operation manual addressing the deficiencies identified are set out in the following table:

Key Area/ Process	Findings and material deficiencies	Procedures adopted in the revised operation manual
1. Policy on employee's code of conduct	A policy on employee's code of conduct should be established. Personnel registered as "relevant individuals" with SFC had yet to identify and disclose all related accounts and report transactions of related accounts to the management.	Employee's code of conduct and a copy of Code of Conduct issued by SFC will be given to staff. Staff is required to sign the acknowledgement form within 10 days upon joining the company (for new employees) or immediately upon receipt (for existing employees).  Staff as well as the account executives is required to declare his/her related accounts in Cheong Lee and outside accounts, and is required to update the declarations annually.
2. Middle office and compliance function	Absence of independent compliance function to take up the responsibilities of establishing and maintaining policy and procedures; and monitoring compliance of relevant SFC regulations and internal policy and procedures. The financial controller was responsible for monitoring compliance of relevant regulations or ordinance.	The compliance department is responsible for ongoing monitoring of internal control and periodically reviewing procedures to ensure compliance with operation manual. The compliance department is responsible to update the operation manual for any changes in business operation, and SFC and regulatory requirements.
3. Compliance management policy and procedures	A formal policy and relevant procedural guidelines were not in place to govern: human resources management, fixed assets management, treasury management, procurement/expenditure management, IT policy, preparation of FRR, share placement management and related party transactions.	Relevant policy and procedural guidelines have been covered in the revised operation manual.

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Key Area/ Process	Findings and material deficiencies	Procedures adopted in the revised operation manual
4. Segregation between dealing and settlement functions	A Responsible Officer headed both dealing and settlement department. One of the Responsible Officers was responsible for settlement process and could perform trading for clients. The same Responsible Officer was also responsible for approving settlement instructions, clients' funds withdrawal, etc.	<p>New organisation chart adopted such that the department heads of dealing and settlement functions are different persons. Commencing from mid July 2010, the Responsible Officer responsible for approving settlement instructions and clients' funds withdrawal will not be responsible for settlement process.</p> <p>There shall be a detailed job description for all positions to enable the relevant personnel to understand his scope of responsibilities.</p>
5. Management of client statements	Non-settlement staff had access rights to the system to print client statements without restrictions.	Removed unauthorised access to print client statements. Management is responsible for reviewing the access authority periodically (i.e. half-yearly). Any changes in access rights must have written approvals from the management.
6. Dissemination of client statements for dormant accounts	No client statements were distributed to dormant account holders on monthly basis. Only verbal confirmations with account holders would be performed between the duration of one to three months.	Monthly statements will be sent to individual/corporate clients with transactions during the month and also to clients with portfolio(s) and cash balance.
7. Access rights to trading and settlement systems	No periodic independent verification on the access rights granted to users of trading systems; and users are not required to change passwords on regular basis. A perpetual remote access through open connections was granted to IT vendor for system support.	<p>Management is responsible to review the access authority periodically (i.e. half-yearly). Any changes in access rights must have written approvals from the management. All systems password (including operating systems) is required to change periodically (e.g. 30 – 60 days) in order to protect against unauthorised modification destruction.</p> <p>For IT vendors who can remotely access to the trading system, a timetable for remote access will be required. Any urgent repairs must be approved by the Responsible Officer.</p>

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Key Area/ Process	Findings and material deficiencies	Procedures adopted in the revised operation manual
8. Preparation of annual budget	Annual/quarterly budgets may be prepared and analysis on major variances for budgeted and actual figures may be performed.	Annual budget will be prepared by the finance manager as a controlling tool for evaluating financial performance and the actual figures will be reviewed annually.
9. Segregation of duties for staff listing and payroll	Monthly payroll summary and master staff summary update are prepared by the same person. Human resources personnel did not retain historical record of master staff list.	Human resources department is responsible to prepare monthly staff list/payroll summary. Finance manager is responsible for checking and reviewing such record to ensure no misstatement. The payroll instruction is authorised by two persons to ensure proper checking and review exists.
10. Staff performance appraisals	No regular performance appraisals conducted. There were no key performance indicators established to assess the capability of employees from different department.	“Staff Performance Appraisal Form” shall be prepared for every staff annually by his immediate supervisor and countersigned by the head of human resources or an executive director.
11. Quotation for acquisition of fixed assets	The process for acquisition of fixed assets may not be strictly followed by staff.	For any equipment acquisition over HK\$20,000, at least 2 quotations should be obtained to support the application.  All fixed assets acquisition, all purchases invoices together with purchases application form(s) and relevant quotation(s) must be filed properly.
12. Calculation basis for depreciation	Accounting treatment for depreciation of fixed assets was only calculated on an annual basis.	Depreciation is calculated on monthly basis using the straight-line method.
13. Lack of investment plan	Investment plans should be established for investment activities in house accounts.	Management should prepare the overall investment strategy periodically (e.g. quarterly or annually) on the types of investment or nature of industries. The plan should be reviewed by the board of directors. Approval from personnel within authority limit for the investment amount must be obtained. Back office shall monitor and report to the management on the investment limits and the open positions at the end of each month.

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Key Area/ Process	Findings and material deficiencies	Procedures adopted in the revised operation manual
14. No proper safeguard of back-up data	Business contingency plan had yet to be established.	Off-site storage facility will be established in order to have adequate capacity to cater for the Company's database management. Currently, system data is backed-up regularly and stored.
15. IPO subscription process	Written documentations were not required for IPO financing applications. There were no legally binding contracts or terms and conditions furnished to clients and no evidence that Responsible Officers had reviewed clients' transaction history prior to approval.	An application form with proper terms and conditions is required to be completed and signed by the client/account executive. Application forms and checklist for client assessment are required to be signed off by the Responsible Officer after assessing his/her history and background.
16. Scale of financing capacity	A scale of financing capacity for each IPO financing activity had yet to be established.	Management will discuss to decide the scale of financing capacity. Such scale will be properly recorded. Once the subscription is over the scale, the IPO financing activity should be ceased immediately.
17. Bank quotations for borrowing rates	Proper documentations evidencing benchmarked quotation prior to initiating bank borrowings for IPO financing should be maintained.	Finance department should obtain interest rate/borrowing limit quotations from banks via email/fax and file them properly. Management should select the most favorable package for the activities.
18. IPO financing policy and procedures	IPO financing policy had not been formally approved and signed off by the management and circulated to all staff; and did not include contract management/terms and conditions, segregation of duties for IPO financing activities and determination of IPO financing scale for each project.	The revised operation manual covers IPO financing policy including the relevant sections; and has been approved and adopted since October 2010.

The Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, Cheong Lee has not been subject to any review by the SFC or other regulatory authorities. Apart from Mr. Lau Ka Lung Ali, an executive Director, who was reprimanded and fined by the SFC and details of which are disclosed in "Directors, senior management and staff" of this

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prospectus, there has been no public disciplinary action or reprimand by any regulatory authority against Cheong Lee, its directors or any of its staff during the Track Record Period and up to the Latest Practicable Date.

In order to avoid the reoccurrence of the incident of Mr. Lau Ka Lung Ali, the Group has adopted policy and procedures on discretionary trades in its operation manual. Discretionary trades are discouraged unless with the prior approval of two Responsible Officers who should ascertain that sufficient human resources are available to handle the transactions. Trade instructions from different customers involving the same securities and of the same discretionary instructions should be handled by different dealers. If trades arising from different customers involving the same securities and of the same instructions are to be handled by the same dealer, such trades should be aggregated and executed through trading terminals at one point in time with the same price, and be allocated fairly and evenly amongst the customers afterwards. The Responsible Officers should also closely supervise the responsible dealers and review their activities and credit exposure of all discretionary accounts on regular basis.

### **Segregation of duties**

The Group adopts segregation of duties to minimise the chance of collusion between different departments:

***Customer service*** – All account openings are processed by account executives or licensed persons of the sales and marketing department who are licensed by the SFC and further approved by the Responsible Officer. Any exception, for example on commission charges, would require management approval.

The Group has applied certain procedures for handling complaints. All complaints from clients relating to business shall be channeled to senior management and are reported to and handled by the compliance department. Upon receipt of a complaint, the compliance department would study the details and conduct investigation. Where necessary, the results of investigation may be reported to the Board for taking appropriate actions. Ultimately, the compliance department reverts to the client with investigation results and takes remedial action where appropriate.

On 20 August 2010, a customer of Cheong Lee alleged that two buy/sell shares transactions had been carried out through his account without the knowledge and approval of the authorised persons of the complainant. According to Cheong Lee, its record shows that such transactions were made pursuant to the orders from an authorised person of the complainant as stated in the account opening documents. In the latest correspondence on 18 November 2010, the customer requested only the updated monthly statement from Cheong Lee which was provided by Cheong Lee on 24 November 2010. The Directors confirmed that as at the Latest Practicable Date, there is no

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further action taken by the said complainant against Cheong Lee. The Company and the Directors confirmed that, save as disclosed, neither the Group, Cheong Lee nor its directors have received any other customer complaints during the Track Record Period and up to the Latest Practicable Date.

**Sales** – Account executives and certain in-house employees are responsible for taking daily orders placed by clients and providing investment advice to them when required.

**Dealing** – Dealing orders placed by clients will be input by dealers of the dealing department into the BSS or the OAPI, which interfaced the Stock Exchange's trading system. As part of the internal control, error trade reports will be reviewed by the Responsible Officer. Error trade may be due to system or human error. Number of error trade occurred was 0, 3 and 1 respectively during the Track Record Period. The Directors confirm that all of the error trades during the Track Record Period were due to human error arose from input mistake on the company stock code, or quantity of order by in-house employees/an account executive or misunderstanding of client instructions and has been resolved by buying relevant number of Shares in market to ratify the error position which had not resulted in any profit/loss to the Group for the year ended 31 March 2009; but resulted in loss to the Group of approximately HK\$1,429.9 for the year ended 31 March 2010, representing approximately 0.005% of the commission and brokerage from securities dealing of the Group, and profit of approximately HK\$159.0 for the five months ended 31 August 2010, representing approximately 0.002% of the commission and brokerage from securities dealing of the Group. For the period from 1 September 2010 up to the Latest Practicable Date, losses from error trades amounted to approximately HK\$10,482.7. During the Track Record Period and up to the Latest Practicable Date, the Group was not subject to any regulatory fines or penalties as a result of error trades.

In order to prevent the reoccurrence of error trade, management would alert all dealers, account executives and in-house employees serving trading accounts when error trade occurred and remind them the importance of exercising clients' orders with care. Warnings would be given to the account executive, in-house employee serving trading accounts or dealer who repeatedly commits error trades. Management will also from time to time review the workflow of placing orders to ensure that sufficient manpower to handle clients' orders. Nevertheless, 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.

**Settlement** – The settlement department handles clients' monies and securities assets. All cash or securities withdrawals are executed by two different management personnel and have to undergo checking and approval procedures. In addition, high-level review on the transactions is performed to monitor and detect any irregularities.

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### **Conflict of interests**

It is the Group's policies to ensure adequate level of staff awareness of issues relating to conflict of interests and understanding of basic principles relating to client priority, insider dealing, confidentiality and staff dealing. The operation and risk control manuals address situations where two or more interests are present and compete or conflict with each other. Staff must avoid actual or potential conflict of interests whenever possible. Where a conflict cannot be avoided, staff must ensure that the conflict is properly disclosed to the relevant parties and approval is sought from management before any action can be taken.

The Board will adopt the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules immediately before Listing as additional corporate governance measures to manage potential conflict of interests between the Group and the Directors such that in the event that a Director has a conflict or potential conflict of interest in a matter, such Director shall declare to the Board the nature of the matter, the relationship between the parties and the issue involved. In the event that the Board has determined the conflict to be material, the matter shall not be dealt with by way of circulation or by a committee but a board meeting would be held. Such Director must abstain from voting on such Board meeting and that he/she and his/her associates shall not be counted in the quorum present at such Board meeting. Independent non-executive Directors who, and whose associates, have no material interest in the transaction shall be present and take the lead at such Board meeting.

### **Staff dealing**

To avoid actual and potential conflict of interests and duties, the Group has established new policies on employee's code of conduct and has adopted a new operation manual with effect on 26 October 2010 which covers, amongst other things, staff dealing rules. Staff members of the Group as well as the account executives are required to follow the staff dealing policy in the operation manual. Employee's code of conduct and a copy of Code of Conduct issued by the SFC and/or a copy of the staff dealing policy will be given to and the receipt of which will be acknowledged by the staff and account executives. The accounts of the staff and account executives are given an identifying code and activities reports of such accounts are regularly reviewed by the Responsible Officer for irregular or extraordinary transactions. Staff as well as account executives are required to disclose at all times of his/her related accounts in Cheong Lee, details of his/her outside account(s) at the time he or she joins Cheong Lee and any changes thereafter.

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Staff and account executives must not engage in “front running” which includes personal dealing in anticipation of the Company’s major client orders, liquidation orders, and where he or she is in receipt of advanced information not generally available to the public, he or she must not engage in “insider dealing” which means they must not deal in any securities of a corporation or procure another person to deal in such securities when in the possession of confidential price-sensitive information relating to such corporation. Salary based staff members may only execute their orders through designated dealers. For account executives, since they can directly place orders with dealers in the BSS and the OAPI, client priority must be observed to avoid conflict of interest. Failure to comply the staff dealing rules may lead to disciplinary action against the relevant staff or account executives by Cheong Lee, termination of employment of the staff or appointment of the account executives or reporting the case to the SFC and the Stock Exchange. Direct in-house cross dealing between a staff or an account executive and a client is strictly forbidden.

### INTELLECTUAL PROPERTY RIGHTS

The Group has been marketing its business in Hong Kong using the brand name CheongGLee. It has applied for registration of its trade marks in Hong Kong on 15 December 2010, 7 February 2011 and 18 February 2011 respectively and such applications were still in progress as at the Latest Practicable Date. If there are no deficiencies in the applications and no objections to such trade marks, then the whole application process can take as little as six months and therefore the Group expects that the applications would be completed in September 2011.

Detailed information of the intellectual property rights of the Group is set out in the section headed “Intellectual property rights of the Group” in Appendix V to this prospectus.

### COMPETING BUSINESS

The Directors and the Controlling Shareholders confirmed that they do not have any interest, either directly or indirectly, in a business which competes or is likely to compete with the businesses of the Group.

## CONNECTED TRANSACTIONS

Each of the persons stated below had individually maintained either a securities and/or a futures and options account with the Group and obtained brokerage services (“**Brokerage Services**”) and/or IPO financing services provided by the Group during the Track Record Period, and is either a Director or a Controlling Shareholder or an associate of such Director or shareholder, and is therefore a connected person (“**Connected Person(s)**”) under the definition of the GEM 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 persons will be categorised as same class of transactions and will be aggregated into a series of connected transactions for the purpose of calculating the considerations as referred to in the table below under the column “Aggregation of transactions”.

<b>Connected Persons</b>	<b>Connected relationship</b>	<b>Aggregate of transactions</b>
Ms. Au	Controlling Shareholder	Ms. Au and her nephew and sisters and private companies controlled by Ms. Au (excluding Chinacorp which no longer is a Connected Person since 21 September 2009), together as “Ms. Au’s Group”
Ms. Yu	Director	Ms. Yu

## BROKERAGE SERVICES

The aggregate amount of the brokerage commission income paid by the relevant Connected Persons for the Brokerage Services provided by the Group for the two years ended 31 March 2010 and the five months ended 31 August 2010 and the annual caps for the three years ending 31 March 2013 are set as below:

	Year ended 31 March		Five months ended 31 August 2010	Nine months ended 31 December 2010		Annual caps Year ending 31 March		
	2009	2010	Actual	Actual	Annualised	2011	2012	2013
	(audited)	(audited)	(audited)	(unaudited)				
	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)
Ms. Au’s Group	8,907,621	6,301,652	1,595,781	3,549,090	4,732,120	4,800,000	4,800,000	4,800,000
Ms. Yu	–	150	–	–	–	–	–	–

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## CONNECTED TRANSACTIONS

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### *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 Cheong Lee which may be adjusted according to the prevailing economy and stock market sentiment of Hong Kong. The securities brokerage commission rate charged to each of the Connected Persons was the same as the standard brokerage commission rate charged by Cheong Lee to other customers who are Independent Third Parties and in accordance with the pricing policy of Cheong Lee. The futures brokerage commission rate charged to the Connected Person(s) was lower than the standard brokerage commission rate charged by Cheong Lee to other customers who are Independent Third Parties. Such lower rate was charged for the purpose of trial run of the futures brokerage business commencing from January 2010 and in aggregate only generated commission income of HK\$916.0 and HK\$300.0 to the Group for the year ended 31 March 2010 and the five-month period ended 31 August 2010. As confirmed by the Directors, the future brokerage commission rate charged to the Connected Person(s) would be no less favourable to those offered to independent customers since October 2010.

The Directors (including the independent non-executive Directors) consider that brokerage services provided to each of Ms. Au's Group and Ms. Yu and their payments of commission to the Group are made in the ordinary and usual course of the Group's business and are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Annual Caps*

In determining the proposed annual caps for the Brokerage Services, the Directors have taken into consideration the following principal factors: (i) the unaudited annualised actual commission and brokerage generated from the relevant Connected Persons for the nine months ended 31 December 2010; and (ii) the expected economic conditions and market sentiment of the securities markets in Hong Kong.

## CONNECTED TRANSACTIONS

### IPO FINANCING SERVICES

The aggregate maximum amounts of IPO financings advanced by the Group and the amount of interest income received from the relevant Connected Persons for the two years ended 31 March 2010 and the five months ended 31 August 2010 and the annual caps for the three years ending 31 March 2013 are set as below:

		Year ended 31 March		Five months ended 31 August 2010	Nine months ended 31 December 2010		Annual caps Year ending 31 March		
		2009	2010	Actual	Actual	Annualised	2011	2012	2013
		(audited)	(audited)	(audited)	(unaudited)				
		(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)	(HK\$)
Ms. Au's Group	Maximum amounts of IPO financings	–	522,337,943	257,502	257,502	343,336	344,000	344,000	344,000
	Interest income received	–	139,387	87	87	116	120	120	120
	Total	–	522,477,330	257,589	257,589	343,452	344,120	344,120	344,120
Ms. Yu	Maximum amounts of IPO financings	–	1,454,530	–	–	–	–	–	–
	Interest income received	–	287	–	–	–	–	–	–
	Total	–	1,454,817	–	–	–	–	–	–

### Pricing Standard

The interest rates charged to the relevant Connected Persons in relation to IPO financing were comparable to rates offered to other customers of Cheong Lee who are Independent Third Parties and in accordance with the pricing policy of Cheong Lee.

The Directors (including the independent non-executive Directors) consider that the advance of IPO financing to each of Ms. Au's Group and Ms. Yu and their payments of interest income to the Group are made in the ordinary and usual course of the Group's business and are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### Annual Caps

The historical amount of IPO financings provided to each of Ms. Au's Group and Ms. Yu were mainly determined by the investment strategies of each individual member of Ms. Au's Group or Ms. Yu which were largely affected by their own analysis and perception of the economic and stock market condition in Hong Kong. For the year ended 31 March 2010 and the five months ended 31 August 2010, the maximum amounts of IPO financing advanced by the Group to Ms. Au's Group amounted to approximately HK\$522.3 million and HK\$257,502.3 which represented approximately 44.5% and 8.8% of the total amount of IPO financing advanced by the Group of approximately HK\$1,174.0 million and HK\$2.9 million respectively. In determining the proposed annual caps for IPO financing, the Directors have taken into consideration the following principal factors: (i) the expected interest rates for the three years ending 31 March 2013; (ii) the unaudited annualised actual IPO financings advanced to the relevant Connected Persons for the nine months ended 31 December 2010; and (iii) the expected economic conditions and market sentiments of the securities markets in Hong Kong.

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## CONNECTED TRANSACTIONS

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### A. Discontinued connected transactions

During the Track Record Period, Cheong Lee received commission income from Chinacorp for the provision of brokerage services. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the Group's turnover attributable to Chinacorp amounted to approximately HK\$3.5 million, HK\$4.9 million and HK\$1.0 million, representing approximately 16.5%, 6.7% and 4.6% of the Group's total turnover respectively. Chinacorp was 100% held by Ms. Au Yu Siu, a niece of Ms. Au; and therefore, was a connected person as defined under the GEM Listing Rules; and the transactions with Cheong Lee constituted continuing connected transactions. On 21 September 2009, Chinacorp allotted one share to an Independent Third Party resulting in a reduction of the shareholding of Ms. Au Yu Siu in Chinacorp to 50%. Since then, Ms. Au Yu Siu holds 50% interest in Chinacorp and does not have the right to exercise or control the exercise of more than 50% of the voting power at general meetings or control the composition of a majority of the board of directors of Chinacorp. The transactions between Chinacorp and Cheong Lee no longer constitute continuing connected transactions as defined under the GEM Listing Rules.

During the Track Record Period, each of Mr. Chee Kwok Wing Waymond (池國榮), an independent non-executive Director, and Mr. Ang Wing Fung, the spouse of Ms. Choy Wing Man (蔡詠雯), an independent non-executive Director, has opened a securities account with Cheong Lee and Cheong Lee has received commission income from Mr. Chee in the sum of nil, nil and HK\$248.0 respectively and from Mr. Ang in the sum of nil, HK\$50.0 and nil respectively for the two years ended 31 March 2010 and the five months ended 31 August 2010. Such connected transactions with Mr. Ang had been discontinued as his securities account had been terminated by Mr. Ang with effect from 18 October 2010. Mr. Chee still maintains his securities account with Cheong Lee and the Group will monitor the transactions with this account to ensure compliance of the relevant requirements for connected transactions under the GEM Listing Rules where appropriate.

### B. Continuing connected transactions exempt from the reporting, announcement and independent Shareholders' approval requirements

Cheong Lee has entered into brokerage services agreement with Ms. Yu on 22 February 2011 ("**Ms. Yu's Brokerage Services Agreement**"), pursuant to which Cheong Lee may, upon request, provide or Cheong Lee may procure any other company amongst the Group to provide to her (where applicable, including her associates) with the Brokerage Services, from time to time on normal commercial terms and at rates comparable to rates offered to other customers of the Group who are Independent Third Parties of similar transaction turnover and/or credit standing, trading record and quality of collaterals given, and in accordance with the relevant policy of the Group from time to time. Ms. Yu's Brokerage Services Agreement is for a term commencing from the Listing Date and ending on 31 March 2013.

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## CONNECTED TRANSACTIONS

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As the maximum of the total commission to be paid by Ms. Yu (where applicable, including her associates) for the Brokerage Services provided by the Group for each of the three years ending 31 March 2013 is expected to be less than HK\$1,000,000 and that the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules (other than the profit ratio) will be less than 5%, the transactions will qualify for the de minimis exemption criterion under Rule 20.33(3) of the GEM Listing Rules and thus, will be exempted from all the reporting, announcement and independent shareholders' approval requirements.

Cheong Lee has entered into IPO financing services agreement with each of Ms. Au's Group ("**Ms. Au's IPO Financing Services Agreement**") and Ms. Yu ("**Ms. Yu's IPO Financing Services Agreement**") on 22 February 2011, pursuant to which Cheong Lee may, upon request, provide or Cheong Lee may procure any other company amongst the Group to provide to each of them (including their associates) with the IPO financing services, from time to time on normal commercial terms and at the interest rates 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 relevant policy of the Group from time to time. Ms. Au's IPO Financing Services Agreement and Ms. Yu's IPO Financing Services Agreement are for a term commencing from the Listing Date and ending on 31 March 2013.

As the maximum of the aggregate amount of IPO financing to be advanced to and interest income to be paid by Ms. Yu and Ms. Au and their respective associates for each of the three years ending 31 March 2013 is expected to be less than HK\$1,000,000 and that the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules (other than the profit ratio) will be less than 5%, the transactions will qualify for the de minimis exemption criterion under Rule 20.33(3) of the GEM Listing Rules and thus, will be exempted from all the reporting, announcement and independent shareholders' approval requirements.

### **C. Continuing connected transactions subject to the reporting, announcement but exempt from independent Shareholders' approval requirements**

Cheong Lee has entered into a brokerage services agreement ("**Ms. Au's Brokerage Services Agreement**") with Ms. Au on 22 February 2011, pursuant to which Cheong Lee may, upon request, provide or Cheong Lee may procure any other company amongst the Group to provide to Ms. Au (including her associates) the Brokerage Services, from time to time on normal commercial terms and at rates comparable to rates offered to other customers of the Group who are Independent Third Parties of similar transaction turnover and/or credit standing, trading record and quality of collaterals given, and in accordance with the relevant policy of the Group from time to time. Ms. Au's Brokerage Services Agreement is for a term commencing from the Listing Date and ending on 31 March 2013.

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## CONNECTED TRANSACTIONS

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As the maximum of the total commission to be paid by Ms. Au and her associates for the brokerage services provided by the Group for each of the three years ending 31 March 2013 is expected to be less than HK\$10,000,000 and that the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules (other than the profit ratio) will be less than 25%, the transactions will only be subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirements.

### APPLICATION FOR WAIVER

Upon the Listing, the continuing connected transactions described in paragraph C above will constitute non-exempt continuing connected transactions under the GEM Listing Rules, and will need to comply with the reporting and announcement requirements and be subject to annual review.

The Directors (including independent non-executive Directors) are of the view that the continuing connected transactions described above have been and shall be entered into on normal commercial terms and in the ordinary and usual course of business of the Company that are fair and reasonable and in the interest of the Shareholders and will be so in the future, and the transactions and proposed annual caps set out above are fair and reasonable and in the interests of the Shareholders as a whole. Pursuant to Rule 20.42(3) of the GEM Listing Rules, the Company has applied for the continuing connected transactions as referred to in paragraph C above to be exempted from strict compliance with announcement requirement and the Stock Exchange has granted a waiver in relation thereto. Notwithstanding the waiver granted to exempt from compliance with announcement requirement, the Company will comply with the relevant requirements of Chapter 20 of the GEM Listing Rules, including Rules 20.35(1), 20.35(2), 20.35(5), 20.36, 20.37, 20.38, 20.39 and 20.40. The Company confirms that for the purpose of Rules 20.37 and 20.38 of the GEM Listing Rules, all the relevant contracts in relation to continuing connected transactions in the relevant years as disclosed above are available for review by the independent non-executive Directors and auditors of the Company. The independent non-executive Directors and auditors will check whether the relevant continuing connected transactions are entered into in accordance with the terms and pricing disclosed in this prospectus and will disclose their confirmation annually in accordance with the requirements of the GEM Listing Rules.

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## CONNECTED TRANSACTIONS

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### CONFIRMATION FROM THE SPONSOR

Based on the information, documents and historical figures provided by the Company relating to the continuing connected transactions described above, having relied upon confirmations and representations made by the Company and the Directors and participated in due diligence and discussion with the management of the Group and having considered that (i) the lower futures brokerage commission rate charged to Ms. Au's Group was for the purpose of trial run of the futures brokerage business from January 2010 to September 2010 and in aggregate only amounted to HK\$916.0 and HK\$300.0 for the year ended 31 March 2010 and the five months ended 31 August 2010 respectively; and (ii) the futures brokerage commission rates charged to Ms. Au's Group has been no less favourable than those offered by Cheong Lee to other customers who are Independent Third Parties since September 2010 as disclosed above, the Sponsor is of the view that the non-exempt continuing connected transactions as described above for which the waiver is sought (including the terms and conditions of the agreement and the proposed annual cap amounts of such continuing connected transactions) have been and will be in the ordinary and usual course of business of the Group, on normal commercial terms are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into certain related party transactions. Details of which are set out in Note 34 headed "Related parties transactions" in the accountants' report as set out in Appendix I to this prospectus.

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## FUTURE PLANS AND PROSPECTS

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### BUSINESS OBJECTIVES

The business objective of the Group is to continue the growth of its broking business by broadening its client portfolio and developing and offering new and timely services to meet customer demands.

### BUSINESS STRATEGIES

The Directors have developed the following business strategies:

#### **1. Entering into the new margin financing business**

The Group plans to develop margin financing activities to allow flexibility to clients by providing funds directly to them for purchasing securities on a margin basis. Under the SFO, if a company is licensed for Type 1 (dealing in securities) regulated activity, it needs not separately be licensed for Type 8 (securities margin financing) regulated activity to carry out securities margin financing for its clients. However, according to the current rules and regulations for margin financing activities, it would need to have a minimum paid-up share capital of HK\$10.0 million and a minimum liquid capital of HK\$3.0 million. Cheong Lee currently has a paid-up capital of HK\$40.0 million. The Group's liquid capital amounted to approximately HK\$18.5 million, HK\$53.3 million and HK\$59.8 million as at 31 March 2009, 31 March 2010 and 31 August 2010 respectively. Accordingly, the Group is permitted to engage in the margin financing business. Margin loans to clients of the Group will be secured by pledged securities listed on the Stock Exchange and/or cash deposits. The Group will regularly review the securities pledged by clients, update their respective margin ratio and communicate to clients. The margin ratio for each of the acceptable securities will generally be determined by the credit committee with reference to the margin ratio set by other financial institutions. The Group will also review the margin ratios when qualities of particular securities deteriorate rapidly.

#### **2. Maintaining and enhancing efficiency of trading platform**

The Group aims to provide customers with more efficient and feature-enhanced trading facilities, equipment, IT related/software solutions in a reliable, secured, convenient and cost effective manner. The Group will continue improving and upgrading its trading facilities in order to cope with changes in trading technologies and to cater for the increasing use of the Group's platform for securities and futures trading.

#### **3. Expanding client network**

The Group intends to further enlarge its client base, explore more opportunities for placing and underwriting business and expand its sales and marketing team. To cope with such expansion, it will recruit professional sales personnel, in particular, the equity capital market professional personnel from the market as well as provide professional training to fresh graduates who are ambitious in pursuing their career in the financial market.

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## FUTURE PLANS AND PROSPECTS

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### IMPLEMENTATION PLANS

All of the above strategies are ongoing business pursuits and are not confined to post-Listing. Only offering margin financing service, upgrading computer systems and trading platform and hiring new staff for expanding client network would need to deploy capital out of the net proceeds raised through the Placing. Whilst the capital market is not easily predictable, the Directors will use their best endeavours to anticipate changes, yet allowing for flexibility to implement the following plans:

#### **Funding to develop the margin financing business**

The Group will step into the margin financing business in Hong Kong in March 2011 after Cheong Lee notified the SFC in writing of its engagement in the margin financing business and provided the SFC with certain related documents for reference, as a complementary service to its brokerage clients in March 2011. Margin financing will offer funding flexibility to clients of the Group by assisting leverage their investments. The existing BSS of the Group can support the operations of the margin financing business. In order to meet demand from its clients for advancing margin loans, the Group will have to retain higher level of funding resources from time to time. The Group will inject fund of approximately HK\$75.0 million in March 2011 to start its margin financing business.

As at the Latest Practicable Date, the Directors confirmed that some of the staff of the Group has the experience in margin financing business. Currently, two Responsible Officers have over 5 years and over 10 years of experience in margin financing respectively, a settlement staff has over 5 years of experience in monitoring clients' positions, maintaining and updating margin ratio in the BSS for margin financing activities; and two account executives have over 10 years of relevant experience. The Group will employ additional staff to ensure sufficient manpower to operate the margin financing business. It will determine the pricing for margin financing on prime rate basis subject to adjustments with reference to the then prevailing market conditions.

Margin loans to clients of the Group will be secured by pledged securities listed on the Stock Exchange and/or cash deposits. The Group will regularly review list of securities pledged by clients, update their respective margin ratio and communicate to clients. The margin ratio for each of the acceptable securities will generally be determined by the credit committee comprising three Responsible Officers and the Finance Manager, with reference to the margin ratio set by other financial institutions.

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## FUTURE PLANS AND PROSPECTS

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The following control policies and measures have been/will be in place to monitor the margin financing business of the Group:

### **Review of financial resources and liquid capital position**

Under the FRR, Cheong Lee would be required to have minimum paid up share capital of HK\$10.0 million and minimum liquid capital of HK\$3.0 million for margin financing business. The Responsible Officer has been closely monitoring the level of FRR position to ensure compliance with SFO requirement, by monitoring the financial position of Cheong Lee at each day end to identify any significant changes in its assets and liabilities that would have significant impact on Cheong Lee's liquid capital. Cheong Lee has also prepared financial returns based on its financial statements and lodged to the SFC each month after obtaining approval from the Responsible Officer, with supporting schedules for each FRR item and breakdown showing adjustments as required under the FRR.

### **Margin ratio of different pledged assets**

A list of securities acceptable as pledges to the Group and their respective margin ratios are regularly updated and communicated to clients. Margin ratio for each of the acceptable securities is generally determined by the credit committee 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. The Group will also review the margin ratios when qualities of particular securities deteriorate rapidly.

### **Minimum margin requirement**

The Company would set a range list for the minimum margin requirement. Customers have to place sufficient cash/securities into the account with Cheong Lee for obtaining margin financing. The Responsible Officers would monitor the customers' security cash/securities level on a daily basis to ensure they meet the requirement.

### **Credit limit**

The Group has established policies and procedures to evaluate financial condition of the client, including annual income, net worth, capital bases, occupation, investment objective and experience, cash and securities positions in the account with Cheong Lee, recent trading and past payment and default record and etc. prior to approving client's trading line. One of the Responsible Officers monitors the daily utilisation of trading limit of every client. The credit limits of clients will be subject to annual review by the credit committee annually. The annual credit review will mainly review and evaluate the approval of credit limits with reference to the clients' trading and margin call records maintained by Cheong Lee.

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## FUTURE PLANS AND PROSPECTS

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### Margin call policy

One of the Responsible Officers will review the margin position of each client based on the margin evaluation report generated by the settlement department on a daily basis. The report shows balance of account, portfolio value and due/undue settlement cash and margin. The relevant account executive or in-house employee serving trading accounts will contact client who would need to top up margin deposits based on the margin evaluation report. The Responsible Officer will monitor clients' margin position and determine when a margin call would be made on clients having insufficient collateral in margin accounts. He has discretion on margin call on a case by case basis after taking into account factors such as net outstanding amount, portfolio and financial background of clients as well as market value of pledged securities. It is the intention of Cheong Lee that the maximum tolerance level would be up to 70% of the market value of clients' portfolio. The Responsible Officer will continue to closely monitor the account until the margin position has been ratified. The Responsible Officer will base on the results of margin call and the margin evaluation report to prepare an assessment report on whether liquidation of client's securities is needed. The assessment report will be reviewed by the credit committee comprising three Responsible Officers and the Finance Manager to decide whether liquidation of client's stocks is necessary. In case of a need of liquidating client's stocks, the Responsible Officer will be responsible for execution of selling stocks on the market, and such decision will be communicated to the client by the relevant account executive or in-house employee.

The credit committee will review margin calls and newly granted credit limit exceeding a pre-determined limit monthly to ensure Cheong Lee has followed the margin call and implemented liquidation policies and credit assessment procedures properly. The credit risk committee will also review the margin lending, margin call and collateral policies bi-annually to determine areas for further refinement.

In addition, the compliance department will also perform periodic review to ensure that the margin lending, margin call and liquidation policies and procedures of Cheong Lee are properly followed and will refer any discrepancies to the audit committee.

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## **FUTURE PLANS AND PROSPECTS**

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### **Upgrading computer systems and trading platform**

The Group aims to offer customers more efficient and feature-enhanced trading solutions by upgrading its existing computer system and electronic trading services. Throttle rate is calculated based on order per second. Since a large number of order inputs are always given at one time when the morning session commences, the utilisation of the capacity of the Group's trading system may reach its peak at such time, despite the overall daily utilisation rate is low. In order to enhance the efficiency of trading platform of the Group where more orders can be put through the trading system at one time per second and to avoid bottlenecks in order processing during the peak time, the Group plans to increase the efficiency of its BSS by investing approximately HK\$1.0 million to increase number of throttles from 14 to 24 by 31 March 2013.

The Group will also spend approximately HK\$7.5 million to upgrade and improve its existing computer system and Internet trading platform by acquiring new hardware and associated software to enhance the capability of reinstating data in case of disaster such as virus attack or hardware failure on servers. The Group's upgrading of its existing computer system to offer on-site clients with more powerful configurations; and implementing of additional server(s) for data processing will enable on-site clients and/or staff of Cheong Lee to get real time price quotations and market information and clients' position (in the case of staff of Cheong Lee) more quickly and thus, will enhance efficiency of trading. Additional maintenance cost for the Group's computer system is estimated to be approximately HK\$0.12 million per annum.

### **Expanding client network**

The Group currently operates one office in Hong Kong and has not conducted any business outside Hong Kong during the Track Record Period. It has leased a new office in Hong Kong and will recruit more qualified personnel and new staff. It is expected that the expansion of its sales team through the new office will enable the Group to better serve its retail and institutional clients of securities brokerage business. The leasing of the new office is expected to incur an initial setup cost of approximately HK\$0.7 million by 31 March 2011 and approximately HK\$8.0 million for the period up to 31 March 2013. Spending on the recruitment of new staff for the new office will cost the Group approximately HK\$2.5 million and initial running cost such as rental and advertising will cost approximately HK\$2.5 million.

The Group will employ 1 to 2 Responsible Officer(s), 1 to 2 dealing staff and 5 to 6 sales and marketing staff and if necessary, certain supporting staff. All staff members of the new office are required to comply with the Group's operation manual. The Responsible Officer(s) would directly report to the Directors and all transactions of and information submitted by the new office would be reviewed by the management of the head office.

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## FUTURE PLANS AND PROSPECTS

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**For the period from the Latest Practicable Date to 31 March 2011**

<b>Entering into the new margin financing business</b>	<b>Maintaining and enhancing efficiency of trading platform</b>	<b>Expanding client network</b>
Contribute funds to conduct margin financing business	Increase number of throttles for BSS, upgrade and enhance existing computer system and electronic trading platform and maintenance	Conduct initial setup and renovation
Amount to be applied from the net proceeds of the Placing:		
HK\$75.0 million	HK\$1.8 million	HK\$1.2 million

**For the period from 1 April 2011 to 30 September 2011**

<b>Entering into the new margin financing business</b>	<b>Maintaining and enhancing efficiency of trading platform</b>	<b>Expanding client network</b>
–	Increase number of throttles for BSS, upgrade, enhance existing computer system and electronic trading platform, implementation of Enterprise Resource Planning system and maintenance	Conduct initial setup and renovation, settle the relevant expense, recruit new staff and account executives for the new office
Amount to be applied from the net proceeds of the Placing:		
–	HK\$3.0 million	HK\$7.9 million

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## FUTURE PLANS AND PROSPECTS

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**For the period from 1 October 2011 to 31 March 2012**

<b>Entering into the new margin financing business</b>	<b>Maintaining and enhancing efficiency of trading platform</b>	<b>Expanding client network</b>
–	Increase number of throttles for BSS, upgrade and enhance existing computer system and electronic trading platform, implementation of Enterprise Resource Planning system and maintenance	Settle the remaining initial setup and renovation cost, recruit new staff and account executives for the new office
Amount to be applied from the net proceeds of the Placing:		
–	HK\$2.9 million	HK\$3.9 million

**For the period from 1 April 2012 to 30 September 2012**

<b>Entering into the new margin financing business</b>	<b>Maintaining and enhancing efficiency of trading platform</b>	<b>Expanding client network</b>
–	Increase number of throttles for BSS and implementation of Enterprise Resource Planning system and maintenance	Recruit new staff and account executives for the new office
Amount to be applied from the net proceeds of the Placing:		
–	HK\$0.8 million	HK\$0.5 million

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## FUTURE PLANS AND PROSPECTS

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**For the period from 1 October 2012 to 31 March 2013**

<b>Entering into the new margin financing business</b>	<b>Maintaining and enhancing efficiency of trading platform</b>	<b>Expanding client network</b>
–	Increase number of throttles for BSS and maintenance	Recruit new staff and account executives for the new office
Amount to be applied from the net proceeds of the Placing:		
–	HK\$0.3 million	HK\$0.2 million

### **BASES AND ASSUMPTIONS**

The Directors have adopted the following principal assumptions in the preparation of the future plans up to and including 31 March 2013:–

- (a) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong and any other place in which any member of the Group carries on or will carry on business;
- (b) there will be no material changes in the bases or rates of taxation in Hong Kong or in any other place in which any member of the Group operates or will operate or is incorporated;
- (c) the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” in this prospectus;
- (d) the Group will be able to retain its key staff in the management and the professional staff;
- (e) the Group will obtain equity and/or debt capital for its future growth when it becomes necessary;
- (f) the Group will not be materially affected by any risk factors set out in the section headed “Risk factors” in this prospectus; and
- (g) the Group will be able to continue its operation in substantially the same manner as it has been operating during the Track Record Period and the Group will also be able to carry out its development plans without disruptions.

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## FUTURE PLANS AND PROSPECTS

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### USE OF PROCEEDS

The Placing, after deducting underwriting commission and other expenses relating to the Placing payable by the Company and based on a Placing Price of HK\$0.4875 being the mid-point of the indicative Placing Price range of HK\$0.48 to HK\$0.495 per Placing Share, will be approximately HK\$106.5 million. The Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31 March 2011 <i>HK\$ million</i>	30 September 2011 <i>HK\$ million</i>	For the six months ending		31 March 2013 <i>HK\$ million</i>	Total <i>HK\$ million</i>
			31 March 2012 <i>HK\$ million</i>	30 September 2012 <i>HK\$ million</i>		
Entering into the new margin financing business	75.0	–	–	–	–	75.0
Maintaining and enhancing efficiency of trading platform	1.8	3.0	2.9	0.8	0.3	8.8
Expanding client network	1.2	7.9	3.9	0.5	0.2	13.7
	<u>78.0</u>	<u>10.9</u>	<u>6.8</u>	<u>1.3</u>	<u>0.5</u>	<u>97.5</u>

If the Placing Price is set at the high-end of the indicative Placing Price range, being HK\$0.495 per Placing Share, the net proceeds from the Placing will increase by approximately HK\$1.9 million. The Company intends to apply the additional net proceeds for the above purposes on a pro-rata basis.

If the Placing Price is set at the low-end of the indicative Placing Price range, being HK\$0.48 per Share, the net proceeds of the Placing will decrease by approximately HK\$1.8 million. In such case, the Company intends to reduce the allocation of such net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately required for or applied to the above purposes, the Company may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in the Company's best interests.

The Company will make an appropriate announcement and comply with the requirements of the GEM Listing Rules if there is any change to the above proposed use of proceeds.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### EXECUTIVE DIRECTORS

Name	Age	Position/title	Date of appointment as Director	Roles and responsibilities
Mr. LAU Ka Lung Ali (劉嘉隆)	44	Executive Director and Responsible Officer of Cheong Lee	18 February 2011	Responsible for formulating corporate strategies and overall management of the Group and managing daily operations and supervising dealing staff as well as overseeing and supervising risk control such as monitoring trades and funding
Mr. KWOK Kin Chung (郭建聰)	36	Executive Director and Responsible Officer of Cheong Lee	18 February 2011	Managing daily operations and supervising dealing staff
Mr. LAU Kin Hon (劉建漢)	43	Executive Director	18 February 2011	Managing the compliance function of the Group and the provision of advice to the Group on legal and regulatory compliance matters
Ms. YU Linda (余蓮達)	38	Executive Director and Responsible Officer of Cheong Lee	27 August 2010	Business development, marketing, maintenance of clients' relations and such other matters as the Board shall from time to time direct

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Age	Position/title	Date of appointment as Director	Roles and responsibilities
Mr. AU-YEUNG Tai Hong Rorce (歐陽泰康)	53	Independent non-executive Director	21 February 2011	Providing independent judgement on issues of strategy, performance, resources and standard of conduct of the Company
Ms. CHOY Wing Man (蔡詠雯)	33	Independent non-executive Director	21 February 2011	Providing independent judgement on issues of strategy, performance, resources and standard of conduct of the Company
Mr. CHEE Kwok Wing Waymond (池國榮)	49	Independent non-executive Director	21 February 2011	Providing independent judgement on issues of strategy, performance, resources and standard of conduct of the Company

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. LAU Ka Lung Ali (劉嘉隆)**, aged 44, is an executive Director and a director and Responsible Officer of Cheong Lee. He joined the Group in September 2007 and was appointed as director of Cheong Lee on 16 July 2007 and an executive Director and Chairman of the Company on 18 February 2011 and 22 February 2011 respectively. Mr. Lau is responsible for managing daily operations and supervising dealing staff and will be responsible for formulating corporate strategies and overall management of the Group. He also oversees and supervises risk control of the Group such as monitoring trades and funding. On 21 July 2002, Mr. Lau completed a diploma in China Finance (中國金融文憑) from the Adult Education College of Shenzhen University (深圳大學成人教育學院) of the PRC.

Mr. Lau has over 10 years of experience in securities and commodities dealing and has worked for the following companies:–

Year	Company Name	Position/responsibility
March 1995	Emperor Management Service (H.K.) Limited	<b>Junior Dealer</b>
February 1996 to January 1997	Emperor Gold & Silver Company Limited (英皇金號有限公司)	<b>Floor Trader</b> <ul style="list-style-type: none"> <li>mainly responsible for handling clients' orders and commodities price quoting</li> </ul>
February 1997 to September 2006	Emperor Futures Limited (英皇期貨有限公司)	<b>Marketing Assistant and Senior Dealer</b>
January 2007 to June 2007	Asialink Securities Limited (恆亞證券有限公司)	<b>Account Executive</b> <ul style="list-style-type: none"> <li>responsible for handling clients' transactions with or through such company</li> </ul>

In the three years preceding the Latest Practicable Date, Mr. Lau did not hold any directorship in any other listed company.

As mentioned in a press release published on the SFC's website on 13 December 2010, the SFC has issued a reprimand to Mr. Lau and fined him HK\$50,000 for failing to maintain a proper audit trail of his clients' orders. Between June and July 2009, Mr. Lau was given an identical discretionary order to trade a stock by three Mainland Chinese clients. The SFC found that Mr. Lau failed to keep a proper audit trail of the discretionary trades and systematically allocate the trades to the three clients, resulting in uneven allocations of shares to the three clients. In deciding to reprimand and fine Mr. Lau, the SFC took into account that (i) Mr. Lau did not act dishonestly; (ii) there is no evidence that the clients had been prejudiced by Mr. Lau's conduct; (iii) Mr. Lau agreed to resolve the disciplinary action by consent; and (iv) Mr. Lau's otherwise clear disciplinary record.

All the Directors (including the independent non-executive Directors but excluding Mr. Lau) and the Sponsor are of the view that Mr. Lau is suitable and is able to discharge his role as an executive Director under Rules 5.01 and 5.02 of the GEM Listing Rules on the basis that (i) Mr. Lau has not taken, nor has he been implied of having taken, any benefit for himself personally or for any other person or corporation from the incident; (ii) Mr. Lau only acted according to, and within the instructions given by, the clients involved; and (iii) neither Cheong Lee nor the clients concerned have suffered any loss as a result of the incident.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Mr. Lau's relevant license as required under the SFO and set out in the paragraphs headed "Licences" and "Trading Rights" under the section headed "Business" of this prospectus, has never been suspended during the Track Record Period and up to the Latest Practicable Date.

**Mr. KWOK Kin Chung (郭建聰)**, aged 36, is an executive Director and a director and Responsible Officer of Cheong Lee. He joined the Group in July 2010 and was appointed as a director of Cheong Lee on 8 September 2010 and an executive Director on 18 February 2011. Mr. Kwok is responsible for managing daily operations and supervising dealing staff. He has obtained a Master's degree in Finance in 2006 from Curtin University of Technology (科庭科技大學\*) of Australia and a professional diploma in Corporate Finance from The Hong Kong Management Association (香港管理專業協會).

Mr. Kwok has over 10 years of experience in securities and derivatives dealing and has worked for the following companies:—

Year	Company Name	Position/responsibility
July 1993 to June 1994	Top Rank Investment Ltd. (統一投資有限公司)	<b>Dealer</b> <ul style="list-style-type: none"> <li>responsible for providing foreign exchange rate to clients and execution of transactions</li> </ul>
July 1994 to January 1995	Harlow Butler (HK) Ltd. (毅聯滙業有限公司)	<b>Foreign Exchange Broker</b> <ul style="list-style-type: none"> <li>responsible for providing foreign exchange rate to bankers and execution of transactions</li> </ul>
February 1995 to May 1997	Exco (HK) Ltd.	<b>Money Broker</b> <ul style="list-style-type: none"> <li>responsible for providing foreign interest rate and swap to bankers and execution of transactions</li> </ul>
June 1997 to April 2007	Kaiser Investment Holdings Limited (嘉信控股有限公司)	<b>Dealing Manager</b> <ul style="list-style-type: none"> <li>responsible for the management of daily operations of the securities and derivatives departments and made a lot of contribution in setting up the operations of the derivatives settlement division</li> </ul>
May 2007 to January 2009	Kaiser Investment Holdings Limited (嘉信控股有限公司)	<b>Licensed Representative</b>
February 2009 to December 2009	Mavin International Investment Group Limited (萬域國際投資 集團有限公司)	<b>Senior Manager</b> <ul style="list-style-type: none"> <li>responsible for managing daily operations</li> </ul>

\* For identification purpose only

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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In the three years preceding the Latest Practicable Date, Mr. Kwok did not hold any directorship in any other listed company.

**Mr. LAU Kin Hon (劉建漢)** (“Mr. KH Lau”), age 43, is an executive Director and a director of Cheong Lee. He joined the Group on 8 January 2008 and was appointed as a director of Cheong Lee on 8 January 2008 and an executive Director on 18 February 2011. Mr. KH Lau is responsible for managing the compliance function of the Group and the provision of advice to the Group on legal and regulatory compliance matters. Mr. KH Lau is a practicing solicitor in Hong Kong. Mr. KH Lau received his bachelor of laws degree in 1989 with honours from University College, London (倫敦大學學院\*), U.K. Currently, Mr. KH Lau has over 15 years experience in legal and compliance. He has been a partner of Tang Tso & Lau (鄧曹劉律師行) since February 1995. He is a director of three private limited companies namely More Power Trading Limited, Robos Secretarial Limited and Hengyang Wangxiang Ecological Agricultural Development Limited (衡陽萬象生態農業開發有限公司), the principal businesses of which are consultancy, provision of secretarial services and agriculture business respectively in Hong Kong and the PRC.

As a partner in Tang Tso & Lau, Mr. KH Lau provides legal services to corporate and private clients in areas including general commercial, corporate finance, property, dispute resolution and intellectual property. To the best knowledge of the Company after reasonable enquiry with Mr. KH Lau, such role has no conflict or duplication with Mr. KH Lau’s role as the executive Director in the Company. There has not been, during the Track Record Period, and there will not be any engagement by the Group with Tang Tso & Lau for its legal services that may constitute connected transactions (as defined under the GEM Listing Rules) of the Group.

Save for the appointment as a non-executive director of Magician Industries (Holdings) Limited (通達工業(集團)有限公司) (Stock code: 526) (now known as Lisi Group (Holdings) Limited (利時集團(控股)有限公司)) since April 2005, in the three years preceding the Latest Practicable Date, Mr. KH Lau did not hold any directorship in any other listed company.

Mr. KH Lau had been the independent non-executive director of Fujian Group Limited (福海集團有限公司) (now known as Fujian Holdings Limited (閩港控股有限公司)) (“FGL”) during the period from 11 June 1996 to 11 December 2003, Seapower Resources International Limited (凱暉國際實業有限公司) (now known as China Timber Resources Group Limited (中國木業資源集團有限公司)) (“SRI”) during the period from 15 August 2000 to 5 December 2003 and I-China Holdings Limited (now known as Build King Holdings Limited (利基控股有限公司)) (“ICL”) during the period from 1 April 2001 to 23 April 2004. Each of FGL, SRI and ICL was a company listed on the Stock Exchange during Mr. KH Lau’s directorship and Mr. KH Lau took the responsibilities as an independent non-executive director to provide independent judgement on relevant issues of the Company.

\* For identification purpose only

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### FGL

FGL was incorporated in Hong Kong whose principal business was property investment. FGL was served a winding up petition at the High Court (高等法院) of Hong Kong dated 21 January 2002 which was instituted by 6 former employees for severance payment, payment in lieu of notice, provident fund and litigation fees in an aggregate amount of HK\$489,425.20. FGL was in severe financial difficulty and had continued to negotiate with its major bankers and its then controlling shareholder on restructuring of FGL's debts. FGL was subject to another winding up petition at the High Court (高等法院) of Hong Kong instituted by The Hongkong and Shanghai Banking Corporation Limited (香港上海滙豐銀行有限公司) on 15 January 2003 and provisional liquidators were appointed on the same date. The principal reason for the appointment of provisional liquidators was to facilitate and expedite a restructuring of FGL's affairs. Successful debt restructuring of FGL involving, inter alia, restructuring of the debts owed to creditors of FGL (including secured creditors of approximately HK\$236 million and unsecured creditors of approximately HK\$493 million as at 31 December 2002) was completed on 11 December 2003 and the said winding up petition(s) and provisional liquidators were discharged on the same date.

### SRI

SRI was incorporated in the Cayman Islands whose principal businesses were property investment and cold storage. Each of SRI and four of its then subsidiaries was served a winding up petition at the High Court (高等法院) of Hong Kong on 12 December 2001 by a banking syndicate for recovery of the amount due and outstanding under a loan facility and provisional liquidators were appointed on 31 December 2001. As at 5 December 2001, the amount outstanding and due to the banking syndicate was approximately HK\$491 million. Successful restructuring of SRI was completed on 5 December 2003 and the said winding up petition and provisional liquidators were discharged accordingly.

### ICL

ICL was incorporated in Bermuda whose principal business was investment holding. ICL was subject to a winding up petition at the High Court (高等法院) of Hong Kong in December 2002 and provisional liquidators were appointed on 5 December 2002 as a result of ICL's failure to repay a debt in the amount of approximately HK\$5.4 million due to Seapower Finance Limited (海裕財務有限公司). Successful restructuring of ICL was completed on 23 April 2004 and the said winding up petition and provisional liquidators were discharged accordingly.

Mr. KH Lau has confirmed that there was no wrongful act on his part leading to the winding up petitions in respect of FGL, SRI and ICL. Having considered that Mr. KH Lau was an independent non-executive director in each of the aforesaid three companies and had no active role in the formulation of corporate strategy, daily operation and overall management in each of the aforesaid three companies, all the Directors (including the independent non-executive Directors but excluding Mr. KH Lau) and the Sponsor are of the view that Mr. KH Lau is suitable and is able to discharge his roles as an executive Director under Rules 5.01 and 5.02 of the GEM Listing Rules. Save as disclosed above, Mr. KH Lau has confirmed that there is no other matter relating to him that is required to be disclosed under Rule 17.50(2)(h) to (w) of the GEM Listing Rules.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Ms. YU Linda** (余蓮達), aged 38, is an executive Director and a director and Responsible Officer of Cheong Lee. She joined the Group in October 2007 and was appointed as director of Cheong Lee on 14 April 2009 and an executive Director on 27 August 2010. Ms. Yu is responsible for the Company's business development, marketing, maintenance of clients' relations and such other matters as the Board shall from time to time direct.

Ms. Yu has over 15 years of experience in the securities industry and has worked for the following company:—

Year	Company Name	Position/responsibility
October 1994 to June 2007	Realink Securities Limited (滙信數碼証券有限公司)	Financial Consultant

In the three years preceding the Latest Practicable Date, Ms. Yu did not hold any directorship in any other listed company.

**Mr. AU-YEUNG Tai Hong Rorce** (歐陽泰康), aged 53, is an independent non-executive Director of the Company appointed on 21 February 2011. He holds a Bachelor's Degree in Science (Business Administration (Accounting)) from San Jose State University (聖荷西州立大學\*) in 1983 and a Juris Doctor from Santa Clara University (聖克拉拉大學\*) of the United States of America in 1987. Mr. Au-Yeung was admitted as an attorney and counselor at law of the State Bar of California (加州律師協會\*) on 11 December 1989. Currently, he is the Chief Executive Officer of Nova Solar Limited (新日能有限公司) ("NovaSolar").

Mr. Au-Yeung is a director and Chief Executive Officer of and indirectly holds 68% of the issued share capital of NovaSolar, a BVI Company in which CAAL Capital Company Limited (formerly known as Cheong Lee Capital Limited and wholly owned by Ms. Au), holds approximately 5.2% of its issued share capital. On the basis that CAAL Capital Company Limited is merely a minority shareholder of NovaSolar with an approximately 5.2% interest in its issued share capital, and neither CAAL Capital Company Limited nor its ultimate beneficial owner is involved in the management of NovaSolar, the Sponsor and the Company are of the view that the interest of CAAL Capital Company Limited in NovaSolar would not affect the independence of Mr. Au-Yeung as an independent non-executive Director. Save as disclosed, Mr. Au-Yeung has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any connected person of the Company as defined under the GEM Listing Rules. In the three years preceding the Latest Practicable Date, Mr. Au-Yeung did not hold any directorship in any other listed company.

\* For identification purposes only

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Ms. CHOY Wing Man (蔡詠雯)**, aged 33, is an independent non-executive Director of the Company appointed on 21 February 2011. Ms. Choy has been the Regional Auditor of an international high fashion company since June 2004. Ms. Choy attended the University of New South Wales (新南威爾斯大學\*) in Australia, graduating in 1999 with a Bachelor of Commerce in Accounting and Finance.

Ms. Choy has worked for the following company:—

Year	Company Name	Position/responsibility
September 1999 to March 2004	Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行)	Senior Accountant II

She is a member of ISACA, the Information Systems Audit and Control Association (國際電腦稽核協會), a Certified Practising Accountant of CPA Australia (澳州會計師公會\*), and a member of the Institute of Internal Auditors (國際內部審計師協會\*). She is also a member of the Hong Kong Institute of Certified Public Accountants (香港會計師公會).

The spouse of Ms. Choy, Mr. Ang Wing Fung (“Mr. Ang”), has maintained a securities account with Cheong Lee during the Track Record Period until 18 October 2010. For the two years ended 31 March 2010 and the five months ended 31 August 2010, the transaction amount involving dealings in such account were nil, HK\$50.0 and nil respectively.

On the basis that:—

- (i) the securities account maintained by Mr. Ang with Cheong Lee is a cash account with no margin facilities granted to Mr. Ang;
- (ii) the brokerage commission from Mr. Ang in each of the two years ended 31 March 2010 and the five months ended 31 August 2010 constituted nil, approximately 0.0001% and nil of the revenue from securities and futures broking of Cheong Lee in the respective periods;
- (iii) the business dealings between Cheong Lee and Mr. Ang were in the ordinary course of business of Cheong Lee; and
- (iv) Mr. Ang has already closed his securities account with Cheong Lee on 18 October 2010,

The Sponsor and the Company are of the view that the previous business dealings between Mr. Ang and Cheong Lee during the Track Record Period would not affect the independence of Ms. Choy as an independent non-executive Director. Save as disclosed above, Ms. Choy has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any connected person of the Company as defined under the GEM Listing Rules. In the three years preceding the Latest Practicable Date, Ms. Choy did not hold any directorship in any other listed company.

\* For identification purpose only

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. CHEE Kwok Wing Waymond** (池國榮), aged 49, is an independent non-executive Director of the Company appointed on 21 February 2011. Currently, Mr. Chee is a Assistant Vice President at ICAP AP (Singapore) Private Ltd. He graduated the University of Hong Kong (香港大學) in 1983 with a Bachelor's of Social Sciences.

Mr. Chee has worked for the following companies prior to being appointed as an independent non-executive Director of the Company:—

Year	Company Name	Position/responsibility
August 1993 to December 1994	Lehman Brothers (雷曼兄弟*)	Senior Dealer
February 1991 to September 1993	Barclays Bank PLC (栢克萊國際銀行)	Chief FX Trader
June 1983 to February 1991	JPMorgan (JP摩根*)	Deputy Chief Dealer

Mr. Chee has maintained a securities account with Cheong Lee. For the two years ended 31 March 2010 and from 1 April 2010 to 31 August 2010, the brokerage commission involving dealings in such account were HK\$0, HK\$0 and HK\$248 respectively. Save as disclosed above, Mr. Chee has no past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any connected person of the Company as defined under the GEM Listing Rules. In the three years preceding the Latest Practicable Date, Mr. Chee did not hold any directorship in any other listed company.

Save as disclosed above, there are no other matters concerning the Directors that need to be brought to the attention of the Shareholders and the Stock Exchange and there is no other information relating to the Directors that needs to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

### Matters need to be brought to the attention of the Shareholders

Prior to the appointment of Mr. Lau Ka Lung Ali as the Chairman of the Company on 22 February 2011, the Board has appointed Mr. To Hang Ming ("Mr. To") as executive Director on 18 February 2011 and proposed to appoint Mr. To as the chairman of the Company. However, since Mr. To could not reach a consensus on the terms of the remuneration package in respect of his appointment as the executive Director and the proposed chairman of the Company, Mr. To has on 20 February 2011 tendered his resignation with effect from 21 February 2011. Accordingly, Mr. To would not be the executive director and chairman of the Company upon Listing. Mr. To was an account executive of Cheong Lee for the period from February 2010 to August 2010, and became an employee and the Marketing Director of Cheong Lee in September 2010 up to his resignation and was responsible for formulating corporate strategies and overall management of the Group.

\* For identification purpose only

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Mr. To has confirmed that he has no disagreement with the Board and other members of the senior management during the period of his employment and up to the Latest Practicable Date and there is nothing that needs to be brought to the attention of the Stock Exchange and the Shareholders and that his resignation is not related to any matters regarding the proposed Listing on the GEM of the Stock Exchange by way of Placing.

On 22 February 2011, the Board has appointed Mr. Lau Ka Lung Ali as chairman of the Company and Mr. Lau Ka Lung Ali will be responsible for formulating corporate strategies and overall management of the Group.

### SENIOR MANAGEMENT

**Mr. CHAN Kam Wah (陳錦華)**, aged 35, is the Company Secretary and the Finance Manager of the Group. He joined the Group in May 2010 and is responsible for the overall accounting and financial management functions. Mr. Chan has obtained a Bachelor's degree in Accounting from Napier University, Edinburgh (愛丁堡納皮爾大學\*) of Scotland in 1999. He is also an associate and a fellow of the Association of Chartered Certified Accountants (特許公認會計師公會) since October 1998 and November 2003 respectively and an associate of the Hong Kong Society of Accountants (香港會計師公會), now known as Hong Kong Institute of Certified Public Accountants (香港會計師公會) since 8 October 1999.

Mr. Chan has over 10 years of experience in the accounting and finance industry and has worked for the following companies:–

Year	Company Name	Position/responsibility
October 2009 to May 2010	World Fair International Limited (世逸國際有限公司)	<b>Accounting Manager</b> <ul style="list-style-type: none"><li>oversee the daily operation of the financial accounting department which included handling of financial reporting to management</li></ul>
March 2002 to October 2009	Lisboa Bakeries Ltd. (葡京餅店有限公司)	<b>Accounting Manager</b> <ul style="list-style-type: none"><li>assist in company secretarial functions and to undertake the overall supervision of the accounting department, help to set up and implement new accounting procedures and systems and improve control over data access and system administration</li></ul>
June 1997 to November 2000	Nelson Wheeler (黎熨會計師行)	<b>Audit Senior II</b>
July 1995 to March 1997	Tony CM Yau & Co. (邱智明會計師事務所)	<b>Audit Assistant</b>

\* For identification purpose only

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Mr. Chan is able to discharge his roles as a company secretary in view of his experience in undertaking certain company secretarial duties during the employment period for over 6 years with Lisboa Bakeries Ltd.

### **AUDIT COMMITTEE**

The Company has established an Audit Committee on 21 February 2011 which comprises Ms. Choy Wing Man, Mr. Au-Yeung Tai Hong Rorce and Mr. Chee Kwok Wing Waymond with Ms. Choy Wing Man being the chairman of the committee. The Audit Committee has adopted the written terms of reference in compliance with paragraph C.3.3 of the Code on Corporate Governance Practices (企業管治常規守則) as set out in Appendix 15 to the GEM Listing Rules. Among other things, the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

### **REMUNERATION COMMITTEE**

The Company has established a Remuneration Committee on 21 February 2011 which comprises Mr. Au-Yeung Tai Hong Rorce, Ms. Choy Wing Man and Mr. Lau Kin Hon, with Mr. Au-Yeung Tai Hong Rorce being the chairman of the committee. Written terms of reference in compliance with paragraph B.1.3 of the Code on Corporate Governance Practices (企業管治常規守則) as set out in Appendix 15 to the GEM Listing Rules have been adopted. Among other things, the primary duties of the Remuneration Committee include the evaluation of the performance and the making of recommendations on the remuneration package of the Directors and senior management.

### **NOMINATION COMMITTEE**

The Company has established a Nomination Committee on 21 February 2011 which comprises Mr. Chee Kwok Wing Waymond, Ms. Choy Wing Man and Mr. Lau Ka Lung Ali with Mr. Chee Kwok Wing Waymond being the chairman of the committee. Written terms of reference in compliance with paragraph A.4.5 of the Code on Corporate Governance Practices (企業管治常規守則) as set out in Appendix 15 to the GEM Listing Rules have been adopted. The primary duties of the Nomination Committee include nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on terms of such appointment.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **COMPLIANCE ADVISER**

The Company is expected to appoint VC Capital as its compliance adviser in accordance with Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company must consult with and, if necessary, seek advice from the Compliance Adviser on a timely basis in the following circumstances:–

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by the Company, including share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate (if any) or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

The terms of appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, that is, the distribution of the Company's annual report of its financial results for the year ended 31 March 2013, or until the agreement is terminated, whichever is the earlier.

### **COMPLIANCE OFFICER**

Mr. Lau Kin Hon, who has, since 22 February 2011, been the compliance officer of Cheong Lee, is the compliance officer of the Company.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### STAFF OF THE GROUP

#### Overview of the staff of the Group

As at 31 March 2009, the Group employed 12 full-time employees (including the executive Directors) who were engaged in the following activities:

	Number
Management	5
Dealing and settlement	2
Sales & marketing and equity capital market	1
General administration and accounting	3
Compliance and company secretary	1
	<hr/>
<b>Total</b>	<b>12</b>
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*Note:*

- (1) As at 31 March 2009, there were 5 Responsible Officers and 3 representatives qualified as licensed persons under the SFO.
- (2) The number of employees excludes account executives.

As at 31 March 2010, the Group employed 14 full-time employees (including the executive Directors) who were engaged in the following activities:

	Number
Management	4
Dealing and settlement	3
Sales & marketing and equity capital market	3
General administration and accounting	3
Compliance and company secretary	1
	<hr/>
<b>Total</b>	<b>14</b>
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*Note:*

- (1) As at 31 March 2010, there were 5 Responsible Officers and 4 representatives qualified as licensed persons under the SFO.
- (2) The number of employees excludes account executives.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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As at the Latest Practicable Date, the Group employed 15 full-time employees (including the executive Directors) who were engaged in the following activities:

	Number
Management	2
Dealing and settlement	4
Sales & marketing and equity capital market	4
General administration and accounting	4
Compliance and company secretary	1
<b>Total</b>	<b>15</b>

*Note:*

- (1) As at the Latest Practicable Date, there were 3 Responsible Officers and 6 representatives qualified as Licensed Persons under the SFO.
- (2) The number of employees excludes account executives.

### STAFF RELATIONS

The Company provides continuous professional training to its staff, has maintained a cordial relationship with its staff and has not encountered any major labour disputes with its staff or experienced any interruptions to its operations as a result of disputes with its staff.

### REMUNERATION OF DIRECTORS AND STAFF

Apart from Mr. KH Lau, all directors of Cheong Lee during the Track Record Period who will remain as executive Directors of the Group were paid with directors' remuneration. As advised by the Group, Mr. KH Lau agreed with Cheong Lee that no directors' remuneration would be paid to him for acting as a director of Cheong Lee after taking into account that Mr. KH Lau is not a Responsible Officer for fulfilling the licensing requirement of Cheong Lee and he was willing to invest his time by taking the director role in Cheong Lee in anticipating that he would be able to benefit from the future growth and expansion of Cheong Lee. Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of 3 years from 25 February 2011 subject to termination by not less than three months' written notice. Each of the executive Directors will receive a fee which is subject to an annual adjustment at a rate to be determined at the discretion of the Remuneration Committee of the Company. The total remuneration received by the Directors for the year ended 31 March 2010 was approximately HK\$0.8 million. The total estimated remuneration of the Directors for the year ending 31 March 2011 is approximately HK\$1.6 million which reflects the remuneration packages in respect of similar capacity and responsibilities in the Group in the context of and with due reference to the market and the responsibilities of the Directors concerned.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload and the time devoted to the Group. Details of the terms of the service contracts are set out in the section headed "Particulars of service contracts" in Appendix V to this prospectus.

The remuneration package of the Group's staff includes salary and discretionary bonus. Employees' remuneration is determined based on the individual's qualification, experience, position, job responsibility and market conditions. Salary adjustments and staff promotion are based on evaluation of staff performance by way of annual review, and discretionary bonuses would be paid to staff with reference to the financial performance of the Group of the preceding financial year.

### **SHARE OPTION SCHEMES**

The Company has conditionally adopted the Pre-IPO Share Option Scheme on 22 February 2011 under which certain selected classes of participants (including, among others, full-time employees) have been granted options to subscribe for the new Shares. As at the date of this prospectus, options to subscribe for 6,300,000 Shares have been granted under the Pre-IPO Share Option Scheme to Directors and certain selected staffs of the Group. The Company has also conditionally adopted the Share Option Scheme. No option has been granted under the Share Option Scheme. The principal terms of each of the Share Option Schemes are summarised in the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix V to this prospectus, respectively.

### **RETIREMENT BENEFIT SCHEME**

In Hong Kong, the Group participates in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (強制性公積金計劃條例), Chapter 485 of the Laws of Hong Kong (香港法例) and has made the relevant contributions in accordance with the aforesaid laws and regulations.

Save as the aforesaid, the Group has not participated in any other pension schemes.

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

### SHAREHOLDING STRUCTURE

Set out below are the respective shareholding structures of the Company immediately before and after completion of the Placing but without taking into account of any new Shares which may be allotted and issued pursuant to the exercise of options that were granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme:

Name	Date on which shareholding interest in the Group was first acquired	Number of Shares held immediately before the completion of the Placing	Approximate percentage of shareholding in the Company immediately before the completion of the Placing	Number of Share to be held immediately after the completion of the Placing	Approximate percentage of shareholding in the Company immediately after the completion of the Placing	Approximate investment cost per share (HK cents)	Total Investment cost (HK\$)
Ms. Au (Note 1)	14 June 2007	750,000,000	100%	750,000,000	75%	N/A	N/A
BVI Holding Company (Note 1)	21 September 2010	750,000,000	100%	750,000,000	75%	N/A	N/A
Public (Note 2)	N/A	N/A	N/A	250,000,000	25%	Placing Price	N/A

*Notes:*

- (1) BVI Holding Company is wholly owned by Ms. Au. Since 14 January 2011, Ms. Au has been holding Shares through BVI Holding Company.
- (2) 250,000,000 Placing Shares being offered by the Company.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing (but without taking into account of any new Shares which may be allotted and issued pursuant to the exercise of options that were granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme), the following persons are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company:

Name	Capacity and nature of interests	Number of Shares held	Approximate percentage of shareholding (assuming no exercise of the options to be granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme)
(Note)			
Ms. Au	Corporate-interest in controlled corporation	750,000,000	75%
BVI Holding Company	Beneficial owner	750,000,000	75%

*Note:* These Shares were held by BVI Holding Company, a company incorporated in the BVI which is wholly and beneficially owned by Ms. Au. Accordingly, Ms. Au is deemed to be interested in all the 750,000,000 Shares held by BVI Holding Company under the SFO and their interests duplicate with each other.

Ms. Au currently does not hold any licences for carrying on securities and trading activities. However, she was registered as a dealer's representative under the repealed Securities Ordinance during the period from January 1991 to March 2003 (other than the period from January 1992 to January 1997 and from July 2001 to September 2002). She was also registered as a dealer's representative under the repealed Commodities Trading Ordinance during the period from June 1991 to July 2001 (other than the period from September 1992 to January 1997). Ms. Au was also a Licensed Representative to engage in Type 1 (dealing in securities) regulated activity during the period from April 2003 to October 2003.

In addition, Ms. Au was interested in 25% of Wintech Securities Limited through Treasure Scene Limited, which was wholly owned by Ms. Au, from November 2000 to June 2001.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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On 19 July 2001, the SFC made a public reprimand against Ms. Au in her capacity as a then dealer's representative under the repealed Securities Ordinance and Commodities Trading Ordinance which followed on SFC inquiry into the placement of shares of Kin Don Holdings Limited ("Kin Don") (stock code: 208, currently named as Polytec Asset Holdings Limited) on 23 June 1999.

As disclosed in the announcement relating to the reprimand, many people who bought Kin Don shares in the course of that placement had the mistaken impression that they were buying shares placed by Kin Don's controlling shareholder who would then replenish his interest through a top-up arrangement to raise funds to exploit a trading right that the press reported Kin Don had recently acquired. Kin Don subsequently issued an announcement denying the market rumors and press reports stating that it was not aware of any reason for the price movements in its shares following which Kin Don's share price fell by approximately 47% to HK\$0.88 on 25 June 1999. Following the conduct of the placement, the SFC received complaints from members of the public about the placement.

The SFC found that Ms. Au in the course of soliciting other brokers to act as sub-placing agents had told them that the placement was a top-up placement and that Kin Don had recently acquired a trading right in China. The SFC found that Ms. Au had failed to take all reasonable steps to verify the accuracy or otherwise of this information before informing the prospective sub-placing agents. As a result, misleading information was disseminated to the market about the placement.

In deciding on the public reprimand the SFC took into account that Ms. Au had surrendered her registrations under the repealed Securities Ordinance and the Commodities Trading Ordinance for a period of eight months.

Ms. Au currently holds interests in the following companies (*Note*):

Name	Percentage of shareholding interested	Principal business
BVI Holding Company	100%	Investment holding
Gaint Gain Limited	100%	Investment holding
Billion Wealth Holdings Limited	100%	Property investments
Million Advanced Limited	99%	Property investments
Goldie Trend Limited	50%	Garment trading
CAAL	100%	Investment in securities
China Merit	100%	Investment in securities
C.L. Management Services Limited	100%	Management services
Richest Seasons Holding Limited	100%	Investment holding
Rich Wealth (China) Limited	100%	Investment holding
Success Hands Limited	100%	Investment holding
Norwell Ltd.	Approximately 81.57%	Investment holding

*Note:* Ms. Au did not hold any interest in Chinacorp. This company was previously wholly-owned by her niece, Ms. Au Yu Siu, and it is now 50% held by Ms. Au Yu Siu and as to the remaining 50% by an Independent Third Party.

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## **CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS**

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Ms. Au has confirmed that save for the aforesaid companies and disclosed in this prospectus, she and/or any of her associate(s) does not hold or has not held, either directly or indirectly, any other business or companies during the Track Record Period and up to and including the Latest Practicable Date. Ms. Au has also confirmed that there is no actual or potential competition between the businesses of the Group and the businesses of the aforesaid companies.

### **SUBSTANTIAL SHAREHOLDERS**

Save as disclosed in the sub-paragraph headed “Controlling Shareholders” under this section and so far as the Directors are aware, immediately following the completion of the Placing, but taking no account of any Shares which may be allotted and issued pursuant to the Placing and the exercise of options that were granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, no person will have interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO or who are 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 member of the Group.

### **INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS**

The Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates after the Placing, have taken into consideration the following factors:

#### **Management Independence**

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

The Directors and senior management of the Group are independent of the Controlling Shareholders.

The Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Company is capable of managing the business independently from the Controlling Shareholders after the Placing.

#### **Operational Independence**

The Group’s reliance on the business from Ms. Au and her associates has been decreasing. Turnover of the Group generated from transactions with Ms. Au and her associates accounted for approximately 58.8%, 12.2% and 7.2% of the total turnover for the two years ended 31 March 2010 and the five months ended 31 August 2010 respectively. The Group has established its own set of organisational structure made up of individual departments, each with specific areas of responsibilities. The Group has independent access to the suppliers as well as customers. The Company has also established a set of internal controls to facilitate the effective operation of the business.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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### Financial Independence

The Group has an independent financial system and makes financial decisions according to the Group's own business needs.

The Group's overdraft facilities of HK\$10.0 million obtained from the bank was against a fixed deposit of not less than HK\$5.0 million from Cheong Lee and personal guarantee from Ms. Au for not less than HK\$10.0 million. Personal guarantee provided by Ms. Au will be released or replaced by the Group's corporate guarantee immediately after Listing.

Having considered the above factors, the Directors consider that there is no financial dependence on the Controlling Shareholders.

Therefore, in view of the above fact, the Group is considered independent in all material aspects including finance, management and operations of the Controlling Shareholders.

### UNDERTAKINGS

Each of the Controlling Shareholders has given certain undertakings in respect of the Shares to the Company, the Sponsor, the Lead Manager and the Underwriters, details of which are set out under the paragraph headed "Undertakings" in the section headed "Underwriters" in this prospectus.

### NON-COMPETITION UNDERTAKING

In order to eliminate any existing and future competing business with the Group, a deed of non-competition undertaking dated 25 February 2011 (the "Deed") was given by Ms. Au, BVI Holding Company and each of the executive Directors (collectively referred to as the "Covenantors") in favour of the Group.

The Covenantors' obligations under the Deed are conditional upon the conditions stated under the paragraph headed "Conditions of the Placing" in the section headed "Structure and conditions of the Placing" of this prospectus being fulfilled.

Pursuant to the Deed, each of the Covenantors undertakes to the Group that during the period in which the relevant Covenantor remains as a Director or a Controlling Shareholder (as the case may be) that it/he/she shall not, and shall procure that its/his/her associates shall not, carry on or be engaged, concerned or interested, directly or indirectly, in any business in Hong Kong similar to the activity consisting of securities brokerage business, IPO financing, futures brokerage business, placing and underwriting services or margin financing services, and businesses that the Group is currently and from time to time carrying on.

The Deed shall cease to be of any force and effect:

- (a) in relation to Ms. Au and BVI Holding Company, the date on which she/it ceases to be the Controlling Shareholder; and
- (b) in relation to each of the executive Directors, the date on which he/she ceases to be a Director.

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## SHARE CAPITAL

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### SHARE CAPITAL

The share capital of the Company immediately after completion of the Placing is set out in the table below. The table is prepared on the basis of the Placing becoming unconditional and the issue of Placing Shares pursuant thereto is made as described herein. It takes no account of any new Shares which may be allotted and issued pursuant to the exercise of options that were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to Directors as referred to below or otherwise.

*HK\$*

*Authorised share capital:*

<u>5,000,000,000</u>	Shares	<u>50,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid:*

750,000,000	Shares in issue as at the date of this prospectus	7,500,000
	Placing Shares to be issued pursuant to the	
<u>250,000,000</u>	Placing	<u>2,500,000</u>

*Total:*

<u>1,000,000,000</u>	Shares	<u>10,000,000</u>
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## SHARE CAPITAL

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### Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of the Company must at all times be held by the public. The 250,000,000 Placing Shares represent 25% of the issued share capital of the Company upon Listing.

### Ranking

The Placing Shares will rank equally with all the Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

### Share Option Schemes

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, the major terms of which are set out in the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” in Appendix V to this prospectus, respectively. No options have been granted under the Share Option Schemes.

### General mandate to issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing (not including Shares which may be allotted and issued pursuant to the exercise of options granted or may be granted under the Share Option Schemes); and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares as described below.

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

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## SHARE CAPITAL

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### **General mandate to repurchase Shares**

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional 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 following the completion of the Placing (not including Shares which may be allotted and issued pursuant to the exercise of the options that were granted or may be granted under the Share Option Schemes).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and such repurchases are made in accordance with all applicable laws and the requirements of GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” under the section headed “Further information about the Company” in Appendix V to this prospectus.

The general mandates to issue and repurchase Shares will expire:

- at the conclusion of the next annual general meeting of the Company;
- at the expiry of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or
- when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

Further details of these general mandates are contained in the paragraphs headed “Written resolutions of the sole Shareholder passed on 22 February 2011” and “Repurchase by the Company of its own shares” under the section headed “Further information about the Company” in Appendix V to this prospectus.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with the Group's audited combined financial statements, including the notes thereto, as set out in the accountants' report set out in Appendix I to this prospectus. The Group's combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (香港財務報告準則). You should read the entire accountants' report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by the Group in light of the Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and projections depends on a number of risks and uncertainties over which the Group does not have control. For further information, you should refer to the section headed "Risk factors" in this prospectus.*

### MAJOR FACTORS AFFECTING THE GROUP'S REVENUE

The Group is principally engaged in the provision of (i) securities, futures and options broking and trading; and (ii) placing and underwriting services. The Group also provides ancillary services including application for new issues and nominee services such as collection of cash and scrip dividends.

The Group's income mainly comprises: (i) commission income arising from the broking business of securities and futures dealing, which is recognised on a trade-date basis; (ii) underwriting commission income, sub-underwriting commission income, placing commission and related handling fee, which are recognised when the shares are allotted to the placees; (iii) interest income from IPO financing to its clients; and (iv) handling service fees and dividend collection fees, which are recognised when the agreed services have been provided. Details of the breakdown of turnover by business activities of the Group are set out in Note 6 to the accountants' report contained in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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The Group's business focuses mainly on the capital markets in Hong Kong and is transaction driven. Its revenue is directly related to the number and size of transactions undertaken by the Group on behalf of its clients. Therefore, the Directors believe that the major factors affecting the Group's revenue include:

- (a) performance of the stock and futures markets in Hong Kong;
- (b) number of players and market competition in Hong Kong;
- (c) capacity of the Group's trading system; and
- (d) changes in the laws and regulations governing the securities industry in Hong Kong.

### **Performance of the stock and futures markets in Hong Kong**

The performance of the stock and futures markets in Hong Kong is dependent on both domestic and international political and economic conditions.

The Hong Kong securities market was adversely affected due to the outbreak of the global financial crisis in late 2008. Since then, the worldwide market was clouded by many uncertainties, in particular the increasing concern over the health of U.S. financial institutions. The local securities market in Hong Kong remained stagnant until the first quarter of 2009 when the PRC government implemented additional stimulus plans and there was a general public's anticipation for better corporate earnings. Strong capital inflow into the Hong Kong stock market and property market also lent support. By the end of 2009, the Hang Seng Index and the Hang Seng China Enterprise Index had risen by approximately 52% and 62% respectively from the previous year.

Trading activities in the local stock market were quiet in the first half of 2009, with average daily turnover in 2009 amounting to approximately HK\$62.3 billion, approximately 14% lower than that in 2008, but became active in the second half of 2009 due to improved sentiment and strong funds inflow. Even though the Hong Kong financial markets remained volatile in the first half of 2010 amid global market instability and sovereign liquidity concerns in Europe, by the end of 2010, average daily turnover on the Stock Exchange and the Futures Exchange increased by 11% and 18% respectively and number of new listings increased by 55% as compared to 2009.

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## FINANCIAL INFORMATION

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Although the G-20, or the Group of Twenty, recently declared that it would continue to cooperate and undertake appropriate actions to bolster economic growth and foster a strong and lasting recovery, the global economy is still struggling to emerge from a long shadow. Investors are likely to stay cautious when making investment decisions.

	Year ended 31 December		
	2010	2009	2008
Hang Seng Index	23,035 (+5%)	21,872 (+52%)	14,387
Number of listed companies	1,413 (+7%)	1,319 (5%)	1,261
Market capitalisation ( <i>HKD billion</i> )	21.08 (+18%)	17.87 (+74%)	10.30
Average daily turnover ( <i>HKD billion</i> )	69.12 (+11%)	62.31 (-14%)	72.05
Average daily contract volume of futures and options	467,961 (+18%)	398,134 (-8%)	432,126

Source: HKEx

### Number of players and market competition in Hong Kong

#### *Exchange Participants, Futures Exchange Participants and trading right holders status (as at 31 January 2011)*

	Stock Exchange	Futures Exchange
Exchange Participants		
– Trading	487	N/A
– Non-trading	31	N/A
Futures Exchange Participants		
– Trading	N/A	178
– Non-trading	N/A	–
Trading rights holders	961	244

As at 31 January 2011, there were 178 Futures Exchange Participants and 487 active Exchange Participants in Hong Kong. The Group faces intense competition for its stock and futures brokerage business.

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## FINANCIAL INFORMATION

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### **Capacity of the Group's trading system**

The Group relies heavily on its securities and futures trading systems to generate its revenue. As such, the capacity of the Group's trading system plays a crucial role in ensuring that the Group is capable of executing stock transactions in an efficient and accurate manner.

The capacity of the Group's trading system is measured by the throttle rate which determines the rate at which trade orders can be sent through the Open Gateway to the AMS/3 by the Group. The standard throttle rate is one order per second.

As at the Latest Practicable Date, Cheong Lee held 14 throttle rates subscribed from the Stock Exchange, which translated to a capacity of 14 transaction orders per second. For the five months ended 31 August 2010, the average utilisation rate of securities trading capacity of the Group in terms of throttle usage was approximately 1.2% calculated based on 382,752 orders placed in total divided by the Group's trading capacity of approximately 31,881,600 orders (which is product of 12 transaction orders per second and 2,656,800 trading seconds given its 12 throttle rates subscribed from the Stock Exchange and on the assumptions of 4.5 trading hours each day and 164 trade days). Maximum utilisation of the capacity of the Group's trading system usually occurs when the trading session commences. Any insufficiency in the capacity of the Group's trading system may adversely affect the Group's operations and hence its financial performance.

The Directors confirmed that if future business needs of the Group require, the throttle rates of the Group could be increased without incurring substantial costs. As at the Latest Practicable Date, the one-time charge by HKEx for each additional throttle rate was HK\$100,000.

### **Changes in the laws and regulations governing the securities industry in Hong Kong**

The law and regulations governing the securities industry in Hong Kong may change in a way that may affect the Group's revenue. For example, new laws and regulations may be implemented to change the brokerage commission structure and the amount of liquid capital required for the Group's business which determines the volume and size of transactions that the Group can carry out. These may therefore affect the Group's revenue. In addition, changes in other relevant laws (e.g. the Companies Ordinance and the SFO) and regulations (e.g. the Listing Rules, the GEM Listing Rules and the Takeovers Code) may affect listed companies' abilities to implement corporate exercises, such as fund-raising in the market including IPOs and secondary market equity fund-raising which will, in turn, affect the Group's revenue.

In November 2010, HKEx announced the extension of its trading hours from the current 4 hours to 5 hours with effect from 7 March 2011, and further to 5.5 hours with effect from 5 March 2012, to align with mainland sessions and to offer yuan-denominated products. Such changes may affect the turnover in stock and future markets in Hong Kong and therefore the Group's revenue.

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## FINANCIAL INFORMATION

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial statements of the Group were prepared in accordance with HKFRSs, which require the Group to use certain critical accounting estimates and the management of the Group to exercise its judgment in the process of applying accounting policies. Therefore, the financial information included in this prospectus may not necessarily reflect the results of operations, financial and cash flow positions 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.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable arising from financial services and is recognised on the following basis:

- i) Commission income for broking business of securities, futures and options dealing is recorded as income on a trade-date basis.
- ii) Underwriting commission income, sub-underwriting commission income, placing commission and related handling fee whether on an underwritten or on a best effort basis are recognised when the shares are allotted to the placees.
- iii) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- iv) Handling service fees and dividend collection fees are recognised when the agreed services have been provided.
- v) Profit and loss from trading in financial assets at fair value through profit or loss are recognised when the relevant contract notes are executed.

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## FINANCIAL INFORMATION

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### **Impairment losses on tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation increase under that standard.

### **Others**

For details of the significant accounting policies and key sources of estimation uncertainty relating to the Group's financial information, please refer to Notes 2 and 3 to the accountants' report as set out in Appendix I to this prospectus.

### **RESULTS OF OPERATIONS**

The following is a summary of the audited combined results of the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010 extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus. The audited combined results are prepared in accordance with HKFRSs on the basis of presentation set out in the accountants' report in Appendix I to this prospectus. This summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

## FINANCIAL INFORMATION

	Year ended 31 March		Five months ended 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Total value of transactions	220,489,741,628	402,321,072,198	191,666,695,425	116,875,744,173
Turnover	21,069,422	73,320,765	30,656,084	22,230,602
Net other (loss) income	(1,783,823)	1,855,694	432,211	(180,285)
Administrative expenses	(15,171,732)	(28,724,167)	(9,658,604)	(11,249,514)
Finance costs	(60)	(184,536)	(27,945)	–
Profit before taxation	4,113,807	46,267,756	21,401,746	10,800,803
Income tax expenses	(674,832)	(7,609,382)	(3,521,898)	(1,878,173)
Profit for the year/period attributable to the owners of the Company	<u>3,438,975</u>	<u>38,658,374</u>	<u>17,879,848</u>	<u>8,922,630</u>
Other comprehensive income				
Net change in fair value on available-for-sale financial assets	<u>–</u>	<u>1,970,116</u>	<u>–</u>	<u>(55,580)</u>
Total comprehensive income for the year/period attributable to the owners of the Company	<u>3,438,975</u>	<u>40,628,490</u>	<u>17,879,848</u>	<u>8,867,050</u>
Dividends	<u>852,000</u>	<u>15,008,000</u>	<u>5,000,000</u>	<u>–</u>

### Principal Income Statement Components

#### Turnover

The Group's turnover mainly comprises (i) commission and brokerage fees from securities dealings on the Stock Exchange which accounted for approximately 73.3%, 40.8%, 44.3% and 45.6% of the turnover of the Group respectively for the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010; (ii) commission and brokerage fees on dealing in futures contracts which accounted for nil, approximately 1.8%, nil and 3.0% respectively for the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010; (iii) placing and underwriting commission which accounted for approximately 1.2%, 44.0%, 41.4% and 36.7% respectively for the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010; and (iv) clearing and settlement fee which accounted for approximately 21.3%, 11.2%, 12.7% and 10.8% respectively for the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010.

## FINANCIAL INFORMATION

Breakdown on turnover by business activities of the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010 is set out as below:

	Year ended 31 March		Five months ended 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Commission and brokerage fees from securities dealings on the Stock Exchange	15,442,656	29,941,974	13,567,071	10,127,250
Commission and brokerage fees on dealing in futures contracts	–	1,317,406	–	668,040
Placing and underwriting commission	262,781	32,288,270	12,701,250	8,157,040
Clearing and settlement fee	4,479,671	8,219,488	3,906,995	2,405,122
Handling service and dividend collection fees (Note 1)	375,288	457,195	209,363	173,560
Interest income from				
– authorised financial institutions (Note 2)	177,934	143,105	47,806	101,723
– clients	331,071	953,322	223,598	597,803
– others	21	5	1	64
	<u>21,069,422</u>	<u>73,320,765</u>	<u>30,656,084</u>	<u>22,230,602</u>

Notes:

1. Handling service fee includes fee from providing services to clients for handling IPO applications, transmission and chats of funds, reprinting invoices, refund cheques, stamp duty for bought and sold note and real time quotations.
2. Interest income from authorised financial institutions represents bank interest income for deposits held in house accounts.

Global market shows signs of recovery from the financial tsunami since early 2009. Local market sentiment has been alleviated with the introduction of stimulus economic plans by the PRC government and general public's anticipation for improvement in corporate earnings. In order to capture the upward swing of market momentum, the Group has put much effort on soliciting new clients. Number of brokerage clients has increased substantially from 175 as at 31 March 2009 to 332 as at 31 March 2010. While total value of transactions increased by approximately 82.5% from about HK\$220,489.7 million in 2009 to HK\$402,321.1 million in 2010, turnover of the Group increased substantially by approximately 248.0% from about HK\$21.1 million in 2009 to HK\$73.3 million in 2010.

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## FINANCIAL INFORMATION

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### ***Performance of securities and futures brokerage business***

The Group's brokerage income generated from dealing in securities increased by approximately 93.9% from approximately HK\$15.4 million for the year ended 31 March 2009 to HK\$29.9 million for the year ended 31 March 2010. As a result, income relating to clearing and settlement fee and handling services and dividend collection fees also increased by approximately 83.5% from approximately HK\$4.5 million for the year ended 31 March 2009 to HK\$8.2 million for the year ended 31 March 2010 and by approximately 21.8% from approximately HK\$375,288 for the year ended 31 March 2009 to HK\$457,195 for the year ended 31 March 2010 respectively.

Starting from January 2010, the Group extended its brokerage services to cover futures traded on the Futures Exchange and retained 18 futures clients as at 31 March 2010. As the Group's futures brokerage business was at the beginning stage, income generated from futures dealings was limited amounting to approximately HK\$1.3 million for the year ended 31 March 2010. The increase in interest income was mainly because the increase in interest received from clients for the arrangement of IPO financings.

Compared with the corresponding period of five months ended 31 August 2009, turnover of the Group decreased by approximately 27.5% from approximately HK\$30.7 million to HK\$22.2 million for the five months ended 31 August 2010. Securities market was more active during the five months ended 31 August 2009 than the same period in 2010 as the overall economy started to pick up from the global financial tsunami since the second quarter of 2009. Total value of securities traded on the Stock Exchange was approximately HK\$7,337.3 billion for the five months ended 31 August 2009 as compared to approximately HK\$6,125.3 billion of the same period in 2010. For the five months ended 31 August 2010 as compared with the same period in 2009, the Group's commission and brokerage income generated from securities dealings reduced by approximately 25.4% from approximately HK\$13.6 million to HK\$10.1 million; and income relating to clearing and settlement fee and handling service and dividend collection fees decreased by approximately 38.4% from approximately HK\$3.9 million to HK\$2.4 million and by approximately 17.1% from HK\$209,363 to HK\$173,560, respectively. Interest income increased from HK\$271,405 to HK\$699,590 mainly because of the interest income incurred from overdue amount of approximately HK\$4.0 million from client from May to August 2010. Such overdue amount had been settled in September 2010.

### ***Performance of placing and underwriting business***

Under normal circumstances, Cheong Lee acts as an underwriter or a sub-underwriter on underwritten basis or a placing agent or a sub-placing agent on best effort basis for fund-raising activities. It would take the role on underwritten basis only if it received special requests from the issuers and/or their respective placing/underwriting agents.

# FINANCIAL INFORMATION

The following table sets out details of the fund-raising activities which generated placing/underwriting commission income to the Group for the two years ended 31 March 2010 and the five months ended 31 August 2010:

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# FINANCIAL INFORMATION

Date of agreement	Stock code (if applicable)	Identity of customer	Fund-raising type	Underwritten/best effort basis	Role of Cheong Lee	Size of fund-raising exercise		Allotted by Cheong Lee		Commission income derived by Cheong Lee HK\$
						Number of shares/underlying shares	Amount HK\$	Number of shares/underlying shares	Amount HK\$	
23	19 Feb 2010	N/A	N/A (Note 1)	Best effort	Placing agent	250,000,000	25,000,000	250,000,000	25,000,000	\$100,000.0
24	02 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	90,000,000	10,620,000	90,000,000	10,620,000	\$265,500.0
25	15 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	360,000,000	42,480,000	360,000,000	42,480,000	\$1,062,000.0
26	17 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	90,000,000	10,620,000	90,000,000	10,620,000	\$265,500.0
27	22 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	90,000,000	10,620,000	90,000,000	10,620,000	\$265,500.0
28	22 Mar 2010	8153	China Chief Cable TV Group Limited	Best effort	Placing agent	200,000,000	116,000,000	200,000,000	116,000,000	\$2,900,000.0
29	23 Mar 2010	1998	Flyke International Holdings Ltd.	Underwritten	Underwriter	200,000,000	380,000,000	6,600,000	12,540,000	\$191,691.0
30	29 Mar 2010	8202	Inno-Tech Holdings Limited	Best effort	Placing agent	120,000,000	30,000,000	120,000,000	30,000,000	\$900,000.0
31	29 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	510,000,000	42,840,000	510,000,000	42,840,000	\$1,285,200.0
32	29 Mar 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	90,000,000	7,560,000	90,000,000	7,560,000	\$226,800.0
						2,907,154,229		1,231,648,200		\$32,288,269.8
<b>For the five months ended 31 August 2010</b>										
1	08 Apr 2010	2349	China Water Property Group Limited	Best effort	Sub-placing agent	387,100,000	56,516,600	387,100,000	56,516,600	\$706,457.5
2	08 Apr 2010	8351	Eleemite International Company Limited	Best effort	Placing agent	72,000,000	20,160,000	72,000,000	20,160,000	\$302,400.0
3	21 Apr 2010	943	eForce Holdings Limited	Best effort	Placing agent	317,000,000	48,501,000	317,000,000	48,501,000	\$1,212,525.0
4	11 May 2010	N/A	N/A (note 1)	Best effort	Placing agent	140,000,000	39,200,000	140,000,000	39,200,000	\$294,000.0
5	14 May 2010	N/A	N/A (note 1)	Best effort	Placing agent	140,000,000	39,200,000	140,000,000	39,200,000	\$392,000.0
6	28 May 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	500,000,000	27,500,000	500,000,000	27,500,000	\$687,500.0
7	13 May 2010	1998	Flyke International Holdings Ltd.	N/A	N/A	N/A	N/A	N/A	N/A	(\$13,933.0)
8	31 May 2010	986	Nam Hing Holdings Limited	Best effort	Placing agent	100,500,000	29,145,000	100,500,000	29,145,000	\$874,350.0
9	15 Jun 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	500,000,000	19,500,000	500,000,000	19,500,000	\$487,500.0
10	25 Jun 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	—	—	—	—	\$100,000.0
11	29 Jun 2010	8202	Inno-Tech Holdings Limited	Best effort	Placing agent	148,000,000	27,528,000	148,000,000	27,528,000	\$825,840.0
12	05 Aug 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	180,000,000	13,680,000	180,000,000	13,680,000	\$410,400.0
13	06 Aug 2010	736	China Properties Investment Holdings Limited	Best effort	Placing agent	100,000,000	7,600,000	100,000,000	7,600,000	\$228,000.0
14	10 Aug 2010	263	China Yunnan Tin Minerals Group Company Limited	Best effort	Placing agent	600,000,000	60,000,000	600,000,000	60,000,000	\$1,650,000.0
						388,530,600		388,530,600		\$8,157,039.5

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*Notes:*

1. Identity of the customer for the relevant placing had not been publicly announced.
2. No agreement had been entered with the placing agent and no placing commission had been generated after placing of shares by Cheong Lee.
3. Non-refundable handling fee received by Cheong Lee despite no convertible bond had finally been placed.
4. Actual income was HK\$177,758, amount of HK\$13,933 was overstated and had been adjusted in May 2010.
5. Charge for extending the period for fulfillment of convertible bond placement from June 2010 to December 2010 in relation to the original agreement dated 15 August 2009.

During the year ended 31 March 2010, the Group participated in more placing and underwriting exercises. The Group generated placing and underwriting commission of approximately HK\$32.3 million from 32 fund-raising activities involving fund-raising amount of approximately HK\$1,231.6 million for the year ended 31 March 2010 as compared to placing and underwriting commission of approximately HK\$262,781 from 2 fund-raising activities all conducted on underwritten basis involving fund-raising amount of approximately HK\$35.8 million for the year ended 31 March 2009. Of the 32 fund-raising activities conducted for the year ended 31 March 2010, 5 were conducted on an underwritten basis and 27 were conducted on best effort basis.

Compared with the corresponding period of five months ended 31 August 2009, the Group's placing and underwriting commission for the five months ended 31 August 2010 reduced from approximately HK\$12.7 million to HK\$8.2 million due to less participation in fund-raising activities. During the five months ended 31 August 2010, the Group generated placing and underwriting commission from 12 fund-raising activities all conducted on best effort basis involving fund-raising amount of approximately HK\$388.5 million.

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For the two years ended 31 March 2010 and the five months ended 31 August 2010, the average transaction amount per order of the Group's securities and futures brokerage business amounted to approximately HK\$344,954.5, HK\$329,968.8 and HK\$305,356.3 respectively; where the average number of orders made per client account was approximately 3,652.5, 3,672.5 and 986.5 respectively. The following table sets out average commission rate charged for the Group's securities brokerage business during the Track Record Period:

	Year ended 31 March			Five months ended 31 August 2010		
	2009		2010			
	Value of transaction (HK\$ mil)	Brokerage commission income (HK\$)	Average commission rate	Value of transaction (HK\$ mil)	Brokerage commission income (HK\$)	Average commission rate
Clients entitled to commission scheme						
– charged on fixed basis	219,126.6	13,294,187	0.0061%	396,794.9	17,780,741	0.0045%
– Internet sub-accounts charged on variable basis as other clients	387.6	369,309	0.0953%	1,864.4	1,556,669	0.0835%
Other clients (charged on variable basis)	975.6	1,779,160	0.1824%	3,661.8	10,604,564	0.2896%
Total	220,489.8	15,442,656	0.0070%	402,321.1	29,941,974	0.0074%

### *Net other (loss) income*

Breakdown on net other (loss) income of the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010 is set out as below:

	Year ended 31 March		Five months ended 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Gain on trading of financial assets at fair value through profit or loss	676,224	639,608	356,679	49,256
Loss on trading in futures contracts	–	(3,860)	–	(26)
Dividend income	–	9,758	9,758	–
Net change in fair value of financial assets at fair value through profit or loss	(2,467,065)	1,116,721	65,773	(299,650)
Other income	7,018	93,467	1	70,135
	<u>(1,783,823)</u>	<u>1,855,694</u>	<u>432,211</u>	<u>(180,285)</u>

## FINANCIAL INFORMATION

The Group traded equity securities listed in Hong Kong. During the year ended 31 March 2010, the Group generated gain of HK\$639,608 on trading of such financial assets and recorded an unrealised gain of approximately HK\$1.1 million. The Directors confirmed that it is mainly due to the global market recovery from the financial tsunami since early 2009. Equity securities held by the Group had a fair value of approximately HK\$1.9 million as at 31 March 2010 and dividend income distributed to the Group was HK\$9,758 for the year ended 31 March 2010. The Group started trading futures in November 2009 and incurred a loss of HK\$3,860. Other income increased from HK\$7,018 to HK\$93,467 mainly because of handling charges of approximately HK\$48,000 for a placing exercise which was terminated subsequently and compensation of HK\$17,500 received from a computer retailer.

During the five months ended 31 August 2010, the Group generated gain of HK\$49,256 on trading of equity securities listed in Hong Kong, recorded an unrealised loss of HK\$299,650 and no dividend income as compared to gain of HK\$356,679, an unrealised gain of HK\$65,773 and dividend income of HK\$9,758 during the corresponding period in 2009. From 1 September 2010 to the Latest Practicable Date, the Group generated gain of HK\$149,138 on the trading of listed equity securities and recorded an unrealised loss of HK\$725,937. The Directors confirmed that it is the Group's long term strategy to invest in low risk financial assets with low to medium return. The Group's investment criteria cover equities listed in those healthy developed securities markets, funds invested in healthy capital markets and/or operated by well known bankers and/or any other investments that are supported by industrial analysis report. Purchases and disposals of financial assets are subject to the Board's approval from time to time. As at the Latest Practicable Date, the value of the Group's own securities trading portfolio amounted to approximately HK\$9.2 million.

### *Administrative expenses*

The following table shows the major administrative expenses of the Group for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010:

	Year ended 31 March		Five months ended 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
CCASS charges	4,794,307	8,750,840	4,106,644	2,601,387
Commission paid	350,369	3,642,019	241,166	1,188,973
Subscription and membership fee	2,970,966	3,679,817	1,616,650	1,729,089
Rent, rates and management fee	2,057,514	2,896,992	1,183,908	1,223,549
Salary and allowances	1,324,523	2,736,434	923,800	1,032,129
Consultation fee	218,404	2,005,277	–	–
Directors' remuneration	1,188,975	825,260	233,500	433,205
Depreciation	1,029,680	1,076,183	372,907	377,731
Others	1,236,995	3,111,345	980,029	2,663,451
	<u>15,171,733</u>	<u>28,724,167</u>	<u>9,658,604</u>	<u>11,249,514</u>

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## FINANCIAL INFORMATION

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### *CCASS charges*

Total value of transactions in relation to dealing in securities (other than underwriting or placing) over the Group's platform increased substantially to approximately HK\$402,321.1 million for the year ended 31 March 2010 as compared to approximately HK\$220,489.7 million for the year ended 31 March 2009. In addition, securities underwritten or placed out by the Group amounted to approximately HK\$1,231.6 million for the year ended 31 March 2010 as compared to approximately HK\$35.8 million for the year ended 31 March 2009. Accordingly, CCASS charges paid to HKSCC for clearing services increased by approximately 82.5% from approximately HK\$4.8 million to approximately HK\$8.8 million.

CCASS charges paid to HKSCC for clearing services reduced by approximately 36.7% from approximately HK\$4.1 million for the five months ended 31 August 2009 to approximately HK\$2.6 million for the corresponding period in 2010; which was in line with the approximately 39.0% decrease in total value of transactions of the Group from approximately HK\$191,666.7 million to HK\$116,875.7 million and approximately 29.0% decrease in amount of securities underwritten or placed out by the Group from approximately HK\$547.3 million to HK\$388.5 million.

### *Commission paid*

Commission paid to account executives, who are not employees of the Group, based on their performance of services rendered. The average commission rate paid to account executives during the Track Record Period was between 0.05% to 0.17% of transaction value for securities trading. It is subject to a minimum charge for HK\$50 per transaction. Commission paid also includes commission rebate to third parties for referrals of placing/underwriting business. Such amount increased by approximately 939.5% from approximately HK\$0.4 million to approximately HK\$3.6 million for the year ended 31 March 2010 due to improvement of sales performance in the year, and increment of the number of account executives retained by the Group from 9 to 10 for strengthening its sales and marketing team.

The Group paid a total of approximately HK\$1.0 million rebate to its futures clients for the five months end 31 August 2010 in order to strengthen the client relationship. During the promotion stage of the futures trading business from January 2010 to October 2010, the Company has set a pre-agreed brokerage limit for the futures clients. Amount of commission received from a futures client which exceeded the pre-agreed brokerage limit would be rebated to such client. As such, commission paid was higher at approximately HK\$1.2 million for the five months ended 31 August 2010 as compared with HK\$241,166 for the five months ended 31 August 2009.

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## FINANCIAL INFORMATION

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### *Subscription and membership fee*

Subscription and membership fee relates to the payments for licences from IT vendors, including eBroker Systems Limited, ET Net Limited and AASTOCKS.com LIMITED for the use of BSS and OAPI system and market information and price quotation services. As the Group purchased additional stations connecting to systems provided by such IT vendors and its number of users had increased, subscription and membership fee of the Group increased by approximately 23.9% to approximately HK\$3.7 million for the year ended 31 March 2010 accordingly.

Subscription and membership fee for the five months ended 31 August 2010 maintained at the same level of approximately HK\$1.7 million as the corresponding period in the previous year.

### *Rent, rates and management fee*

On 27 April 2009, Cheong Lee entered into a lease agreement for two years commencing on 1 April 2009 and expiring on 31 March 2011 for a unit located adjacent to its existing office premises. Pursuant to the lease agreement, Cheong Lee is obliged to pay the rates and rent to the landlord. As a result, rent, rates and management fee paid by the Group increased by approximately 40.8% from approximately HK\$2.1 million for the year ended 31 March 2009 to HK\$2.9 million for the year ended 31 March 2010.

Rent, rate and management fee for the five months ended 31 August 2010 maintained at the same level of approximately HK\$1.2 million as the corresponding period in the previous year.

### *Salary and allowances*

Salary and allowances paid by the Group increased by approximately 106.6% from approximately HK\$1.3 million to approximately HK\$2.7 million, which was because of the increase in number of employees from 12 as at 31 March 2009 to 14 as at 31 March 2010 and bonus payment of approximately HK\$664,275 whereas there was no bonus payment for the year ended 31 March 2009.

The Group had 12 and 15 as at 31 August 2009 and 31 August 2010 respectively. During the five months ended 31 August 2009 and 2010, salary and allowances paid by the Group reached HK\$923,800 and approximately HK\$1.0 million respectively, representing a growth of approximately 11.7% as a result of the increase in number of staff.

### *Consultation fee*

The Group employed external professional firms for marketing consultation services on one placing exercise in each of the years ended 31 March 2009 and 2010. As a result, it incurred total consultation fee of HK\$218,404 and approximately HK\$2.0 million for the years ended 31 March 2009 and 2010 respectively. Pursuant to the agreements, the external professional firms would use best effort to identify and screen underwriting opportunities for the Group.

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## FINANCIAL INFORMATION

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### *Other administrative expenses*

Other administrative expenses included directors' remuneration, depreciation, advertising and promotion, trading tariff, etc. Directors' remuneration and depreciation maintained at similar levels for each of the two years ended 31 March 2010. The Group sponsored clients' annual dinners and posted advertisements on newspapers in order to attract public awareness towards its brand name and services. As a result, its advertising and promotion expenses increased from HK\$11,049 for the year ended 31 March 2009 to HK\$516,899 for the year ended 31 March 2010. Trading tariff is charged by the Stock Exchange based on number of trades. This amount increased by approximately 86.6% to approximately HK\$0.7 million for the year ended 31 March 2010, which was in line with the increase in trading activities of the Group.

Other administrative expenses for the five months ended 31 August 2010 mainly comprised donation of HK\$795,785 and entertainment expense of HK\$713,540 for maintaining client relationship and approaching potential customers.

### *Finance costs*

Finance costs mainly represented interest expenses on bank loans in aggregate of approximately HK\$1,174.0 million for the year ended 31 March 2010 to support the financing of applications made by the Group or its clients for securities to be listed on the Stock Exchange pursuant to new issues or offers for sale to the public. Such loans were settled by the Group within one to two weeks. As at 31 March 2010, the Group had no outstanding of bank overdrafts or bank loans.

Finance costs amounted to HK\$27,945 and nil for the five months ended 31 August 2009 and 2010 respectively. The Group obtained IPO loans of HK\$200.0 million from a bank during the five months ended 31 August 2009.

### *Income tax expenses*

Income tax expenses of the Group increased from HK\$674,832 for the year ended 31 March 2009 to approximately HK\$7.6 million for the year ended 31 March 2010. For the years ended 31 March 2009 and 2010, the effective tax rates of the Group remained at 16.5%. The increase in income tax expenses was due to the increase in profit before taxation of approximately HK\$42.2 million for the year ended 31 March 2010 as compared with the previous year.

Income tax expenses of the Group decreased by approximately 46.7% from approximately HK\$3.5 million for the five months ended 31 August 2009 to approximately HK\$1.9 million for the five months ended 31 August 2010 which was mainly attributable to the decrease in profit before taxation of approximately HK\$10.6 million for the five months ended 31 August 2010 as compared with the same period in 2009.

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## FINANCIAL INFORMATION

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### ***Net change in fair value on available-for-sale financial assets***

On 30 November 2009, Cheong Lee resolved to invest and subscribe the shares of Galaxy China Special Situations Fund in an amount of US\$1.0 million. Galaxy China Special Situations Fund focuses on listed companies in Greater China which are either in their early stages of development or challenged by the need to effect immediate changes by way of special situations, such as companies subject to merger and acquisition activities, corporate restructuring/reorganisation, stock placements, distress, spin-offs or other significant corporate events or transactions. The Group generated an unrealisable gain on fair value of approximately HK\$2.0 million for the year ended 31 March 2010 but a loss on fair value of HK\$55,580 for the five months ended 31 August 2010. Cheong Lee served a redemption notice on 29 October 2010 to redeem its entire investment in Galaxy China Special Situations Fund having considered (i) the lock-up period of the fund of one year from its subscription date of 4 December 2009; (ii) the latest available redemption date for Cheong Lee's investment which will end on 3 January 2011; and (iii) 45 days' notice required for redemption. Redemption of such investment took place on 3 January 2011 at fair value of approximately US\$1.4 million and Cheong Lee recorded a gain of approximately HK\$2.9 million.

### **Financial performance for the nine months ended 31 December 2010 and the possible impact of certain non-recurring expenses to financial performance**

#### ***Financial results for the nine months ended 31 December 2010***

According to the unaudited management accounts of the Group for the nine months ended 31 December 2010, the Group's unaudited turnover and profit before taxation were both higher than those in the corresponding period of the previous year.

The increase in unaudited turnover of the Group for the nine months ended 31 December 2010 was mainly attributable to the increase in unaudited placing and underwriting commission for the nine months ended 31 December 2010. The unaudited total value of transactions carried out by the Group for the nine months ended 31 December 2010 decreased as compared with the same for the corresponding period in 2009. Despite there was a decrease in the unaudited total value of transactions, as a result of the increase in fixed commission charged to certain clients with high trading volume, the Group's unaudited commission and brokerage income from securities dealings for the nine months ended 31 December 2010 maintained at the similar level as compared with the same for the corresponding period in 2009. Since the Group only commenced the futures brokerage business in January 2010, no commission and brokerage income from futures dealings was recognised by the Group for the nine months ended 31 December 2009. In addition, since the Group had participated in more fund-raising activities with a higher aggregate fund-raising amount for the nine months ended 31 December 2010, the unaudited placing and underwriting commission recognised by the Group was higher than the same for the corresponding period in 2009. As a result of the decrease in unaudited total value of transactions carried out for the nine months ended 31 December 2010, the corresponding unaudited clearing and settlement fee received by the Group also decreased as compared with the same for the corresponding period in 2009.

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Based on the unaudited management accounts of the Group for the nine months ended 31 December 2010, there was an increase in the unaudited administrative expenses of the Group as compared with the same for the corresponding period in 2009 which was mainly attributable to the increase in the unaudited staff costs and commission paid. Since the Group had not obtained any IPO loans from banks for the nine months ended 31 December 2010, no finance cost was recognised by the Group. As a result of the above, the unaudited profit before taxation of the Group for the nine months ended 31 December 2010 was higher than the same for the corresponding period in 2009.

### ***Financial position as at 31 December 2010***

According to the unaudited management accounts of the Group for the nine months ended 31 December 2010, the Group's non-current assets as at 31 December 2010 maintained at the similar level as that of 31 August 2010. The only item in non-current liabilities as at 31 December 2010 was deferred tax liabilities and the amount was similar to that as at 31 August 2010.

The Group's net current assets as at 31 December 2010 decreased as compared to that of 31 August 2010. However, if excluding amount due to a shareholder of HK\$20.0 million, being the only new component to the current liabilities of the Group, there would be an increase in net current assets. As confirmed by the Company, full amount of the amount due to a shareholder had been settled in February 2011.

The current assets of the Group as at 31 December 2010 were made up by the same components as at 31 August 2010, being trade receivables, other receivables, deposits and prepayments, financial assets at fair value through profit or loss and bank balances and cash. Trade receivables represented one-day position of transaction value of customers' orders for securities/futures dealings, and the amount as at 31 December 2010 increased as compared to that of 31 August 2010. Other receivables, deposits and prepayments as at 31 December 2010 increased mainly due to the increase in progress payment for IPO expenses; and bank balances and cash increased as a result of the increase of clients' monies in trust accounts of the Group and the Group's cash in its general account.

The current liabilities of the Group as at 31 December 2010 were made up by the same components as at 31 August 2010, being trade payables, other payables and accruals and tax payable, except the amount due to a shareholder of HK\$20.0 million mentioned above. If excluding clients' monies in trust accounts, the Group's trade payables would only comprise the one-day position of transaction value of customers' orders which increased as at 31 December 2010 as compared to that of 31 August 2010 and was in line with the increase in trade receivables. Other payables and accruals as at 31 December 2010 increased as a result of deposits from customers for subscription of a convertible bond issued in January 2011 where Cheong Lee was acting as a placing agent.

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## FINANCIAL INFORMATION

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### *Possible impact of certain non-recurring expenses to financial performance*

Notwithstanding the financial performance of the Group for the nine months ended 31 December 2010 mentioned above, the Group's financial results would be affected by certain non-recurring expenses including the expenses in relation to the Listing.

The estimated expenses in relation to the Listing are approximately HK\$11.7 million, of which approximately HK\$2.9 million is directly attributable to the issue of new Shares under the Placing and is expected to be accounted for as a deduction from equity. The remaining listing expenses of approximately HK\$8.8 million are expected to be charged to the unaudited statements of comprehensive income of the Group for the year ending 31 March 2011. Expenses in relation to the Listing are non-recurring and were not incurred during the Track Record Period.

Accordingly, the Board wishes to inform the Shareholders and potential investors that the Group's financial results for the year ending 31 March 2011 would be affected by the estimated expenses in relation to the Listing.

It should be noted that the growth of turnover and profit before taxation mentioned above are based on the unaudited figures for the nine months ended 31 December 2010 which may not be indicative of the full year results for the year ending 31 March 2011. As set out in the section headed "Risk factors" in this prospectus, the Group's business and financial performance may be affected by a number of factors, including amongst all, the risk factors under the paragraphs headed "Risks associated with new margin financing business", "Volatility of the securities and futures markets", "Risk associated with underwriting and placing business", and "Fluctuations of net profit margin and change in major revenue drivers".

As disclosed in the paragraph headed "Client mix" under the section headed "Business" section of this prospectus, the number of securities retail and corporate clients of the Group increased from 324 and 64 respectively as at 31 August 2010 to 447 and 87 respectively as at the Latest Practicable Date. Save as disclosed in the sections headed "Risk factors" and "Financial information" in this prospectus, there are no other trade factors or risks associated which the Group anticipates could materially affect its profits.

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## FINANCIAL INFORMATION

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### LIQUIDITY AND CAPITAL RESOURCES

#### Cash flow

The Group's working capital and other capital requirements were principally satisfied by cash generated from its operations. It also utilised overdraft and bank loans for financing application of securities made by itself or its clients.

The following table summarises the Group's cash flows for the periods indicated:

	Year ended 31 March		Five months ended 31 August	
	2009 HK\$	2010 HK\$	2009 HK\$	2010 HK\$
			(unaudited)	
Cash and cash equivalents at the beginning of the year/period	14,786,362	20,930,604	20,930,604	59,787,786
Net cash generated from operating activities	5,873,405	41,094,657	19,035,216	6,358,835
Net cash (used in) generated from investing activities	(3,617,589)	(7,044,939)	488,803	448,856
Net cash generated from financing activities	3,888,426	4,807,464	4,972,055	–
Net increase in cash and cash equivalents	6,144,242	38,857,182	24,496,074	6,807,691
Cash and cash equivalents at the end of the year/period	20,930,604	59,787,786	45,426,678	66,595,477

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### *Operating activities*

Cash flow from operating activities reflects profit for the year/period adjusted for non-cash items such as depreciation, amortisation, realised and unrealised gain on financial assets at fair value through profit or loss, the effects of cash flows arising from increases or decreases in trade receivables, bank balances and cash in trust account for clients' undrawn monies/excess deposits placed with the Group, trade payables as well as interest income/expenses and dividend income. The Group maintains segregated trust accounts with licensed banks to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

Net cash generated from operating activities for the year ended 31 March 2009 was approximately HK\$5.9 million. The Group generated approximately HK\$6.4 million net cash inflow from operating activities before movements in working capital. There was an aggregate net cash outflow of approximately HK\$0.5 million which was mainly a result of increase in trade receivables of approximately HK\$2.9 million, increase in bank balances and cash in trust account of approximately HK\$37.7 million and increase in trade payables of approximately HK\$39.6 million. The stock market in Hong Kong started to pick up since the second half of 2009, which benefited the Group's securities brokerage business and caused increases in trade receivables and trade payables.

Net cash generated from operating activities for the year ended 31 March 2010 was approximately HK\$41.1 million. The Group generated approximately HK\$44.7 million net cash from operating activities before movements in working capital mainly due to the substantial increase in profit before taxation. The stock market in Hong Kong continued the recovery momentum and became more active in 2010. Commission income generated by the Group from its brokerage business and placing and underwriting business experienced a remarkable growth. There was an aggregate net cash outflow of approximately HK\$3.6 million which was mainly a result of increase in trade receivables of approximately HK\$43.1 million, increase in other assets of approximately HK\$1.6 million arising from the deposit with the HKCC in contribution to the reserve fund as deposit for futures trading, increase in bank balances and cash in trust account of approximately HK\$89.1 million and increase in trade payables of approximately HK\$131.3 million.

Net cash generated from operating activities for the five months ended 31 August 2009 was approximately HK\$19.0 million. The Group generated approximately HK\$21.1 million net cash inflow from operating activities before movements in working capital. There was an aggregate net cash outflow of approximately HK\$2.1 million which was mainly a result of increase in trade receivables of approximately HK\$8.2 million, increase in bank balances and cash in trust account of approximately HK\$34.7 million and increase in trade payables of HK\$39.1 million. Trade receivables and trade payables were in line with the increase in transaction turnover of the Group during this period as a result of the more favourable market sentiment.

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Net cash generated from operating activities for the five months ended 31 August 2010 was approximately HK\$6.4 million. The Group generated approximately HK\$10.8 million net cash inflow from operating activities before movements in working capital, which was lower than that of approximately HK\$21.1 million of the same period in the previous year primarily due to the decrease in profit before taxation from approximately HK\$21.4 million to HK\$10.8 million resulting from the decrease in commission income from securities brokerage and placing and underwriting. There was an aggregate net cash outflow of approximately HK\$4.3 million which was mainly a result of increase in bank balances and cash in trust account of approximately HK\$7.9 million and decrease in trade receivables of approximately HK\$41.6 million offset by the decrease in trade payables of approximately HK\$37.0 million. The decrease in trade receivables and trade payables was in line with the decrease in transaction turnover as compared to the corresponding period in 2009.

### *Investing activities*

The Group's net cash outflow from investing activities for the year ended 31 March 2009 was approximately HK\$3.6 million. The cash outflow was mainly due to the purchase of plant and equipment of approximately HK\$1.2 million and purchase of financial assets at fair value through profit or loss, being equity securities listed in Hong Kong, of approximately HK\$9.5 million offset partially by the proceeds from disposal of equity securities of approximately HK\$6.7 million.

The Group's net cash outflow from investing activities for the year ended 31 March 2010 was approximately HK\$7.0 million. The cash outflow was mainly due to the purchase of plant and equipment of approximately HK\$1.1 million, purchase of intangible assets of approximately HK\$0.3 million, which was the trading right of futures acquired during the year ended 31 March 2010, purchase of equity securities listed in Hong Kong of approximately HK\$17.1 million offset by the proceeds from disposal of equity securities of approximately HK\$18.1 million. In addition, the Group purchased available-for-sale financial assets, being investment in Galaxy China Special Situations Fund, of approximately HK\$7.8 million.

The Group's net cash inflow from investing activities for the five months ended 31 August 2009 was approximately HK\$0.5 million. The cash inflow was mainly due to the proceeds of approximately HK\$13.3 million from disposal of financial assets at fair value through profit or loss, comprising Hong Kong listed equities, which was partly offset by new purchase of approximately HK\$12.4 million. The Group also purchased plant and equipment of approximately HK\$0.7 million and received interest of approximately HK\$0.3 million during this period.

The Group's net cash inflow from investing activities for the five months ended 31 August 2010 was approximately HK\$0.4 million. The cash inflow was mainly due to the interest received of approximately HK\$0.7 million offset by the purchase of plant and equipment of approximately HK\$0.3 million.

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### *Financing activities*

The Group's net cash generated from financing activities for the year ended 31 March 2009 was approximately HK\$3.9 million. This was mainly due to the proceeds from issue of shares relating to the increase in share capital of HK\$5.0 million which was slightly offset by dividends paid of approximately HK\$0.9 million and repayment of amount due to Ms. Au of approximately HK\$0.3 million.

The Group's net cash generated from financing activities for the year ended 31 March 2010 was approximately HK\$4.8 million. This was mainly due to the proceeds from issue of shares relating to the increase in share capital of HK\$20.0 million which was offset by dividends paid of approximately HK\$15.0 million.

The Group's net cash generated from financing activities for the five months ended 31 August 2009 was approximately HK\$5.0 million. This was mainly due to the proceeds from issue of shares relating to the increase in share capital of HK\$10.0 million which was slightly offset by dividends paid of HK\$5.0 million.

There were no financing activities for the five months ended 31 August 2010.

### **Statement of net assets**

As at 31 March 2009, 31 March 2010, 31 August 2010 and 31 December 2010, the Group had net assets of approximately HK\$23.7 million, HK\$69.3 million, HK\$78.1 million and HK\$71.7 million respectively. Details of the components are set out as follows:

	<b>As at 31 March</b>		<b>As at</b>	<b>As at</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>	<b>31 December</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				(unaudited)
<b>Non-current assets</b>				
Plant and equipment	2,218,310	2,278,056	2,194,860	2,028,556
Intangible assets	–	279,120	250,045	226,785
Other assets	205,000	1,775,530	1,776,110	1,794,367
Available-for-sale financial assets	–	9,723,483	9,667,903	9,723,483
	<u>2,423,310</u>	<u>14,056,189</u>	<u>13,888,918</u>	<u>13,773,191</u>

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	As at 31 March		As at 31 August	As at 31 December
	2009	2010	2010	2010
	HK\$	HK\$	HK\$	HK\$
				(unaudited)
<b>Current assets</b>				
Trade receivables	5,859,087	48,921,036	7,367,834	9,951,519
Other receivables, deposits and prepayments	1,107,811	1,212,872	3,158,590	5,479,002
Financial assets at fair value through profit or loss	1,261,138	1,930,400	1,631,152	5,178,610
Bank balances and cash				
– trust accounts	53,237,734	142,385,744	150,236,342	164,706,110
Bank balances and cash				
– general accounts	20,930,604	59,787,786	66,595,477	82,478,990
	<u>82,396,374</u>	<u>254,237,838</u>	<u>228,989,395</u>	<u>267,794,231</u>
<b>Current liabilities</b>				
Trade payables	57,648,468	188,991,829	152,025,562	169,534,101
Other payables and accruals	2,644,609	2,616,024	3,575,024	13,054,324
Amount due to a shareholder	–	–	–	20,000,000
Tax payable	609,298	7,101,037	8,841,431	6,947,367
	<u>60,902,375</u>	<u>198,708,890</u>	<u>164,442,017</u>	<u>209,535,792</u>
<b>Net current assets</b>	<u>21,493,999</u>	<u>55,528,948</u>	<u>64,547,378</u>	<u>58,258,439</u>
<b>Total assets less current liabilities</b>	<u>23,917,309</u>	<u>69,585,137</u>	<u>78,436,296</u>	<u>72,031,630</u>
<b>Non-current liability</b>				
Deferred tax liabilities	264,000	311,338	295,447	311,338
<b>Net assets</b>	<u>23,653,309</u>	<u>69,273,799</u>	<u>78,140,849</u>	<u>71,720,292</u>

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As at 31 March 2009, the Group had net current assets of approximately HK\$21.5 million comprising current assets of approximately HK\$82.4 million and current liabilities of approximately HK\$60.9 million. The current assets as at 31 March 2009 were made up of trade receivables of approximately HK\$5.9 million, other receivables, deposits and prepayments of approximately HK\$1.1 million, financial assets at fair value through profit or loss representing equity securities of five companies listed in Hong Kong at fair value of approximately HK\$1.3 million, bank balances and cash of approximately HK\$53.2 million and HK\$20.9 million in trust accounts to hold clients' monies and in general accounts to hold cash held by the Group respectively. The current liabilities were made up of trade payables of approximately HK\$57.7 million, other payables and accruals of approximately HK\$2.6 million and tax payable of approximately HK\$0.6 million.

As at 31 March 2010, the Group had net current assets of approximately HK\$55.5 million comprising current assets of approximately HK\$254.2 million and current liabilities of HK\$198.7 million. The current assets as at 31 March 2010 were made up of trade receivables of approximately HK\$48.9 million, other receivables, deposits and prepayments of approximately HK\$1.2 million, financial assets at fair value through profit or loss representing equity securities of three companies listed in Hong Kong at fair value of approximately HK\$1.9 million, bank balances and cash of approximately HK\$142.4 million and HK\$59.8 million in trust accounts to hold clients' monies and in general accounts to hold cash held by the Group respectively. The current liabilities were made up of trade payables of approximately HK\$189.0 million, other payables and accruals of approximately HK\$2.6 million and tax payable of approximately HK\$7.1 million.

As at 31 August 2010, the Group had net current assets of approximately HK\$64.5 million comprising current assets of approximately HK\$229.0 million and current liabilities of approximately HK\$164.4 million. The current assets as at 31 August 2010 were made up of trade receivables of approximately HK\$7.4 million, other receivables, deposits and prepayments of approximately HK\$3.2 million (of which, approximately HK\$2.2 million was the prepaid expense for the IPO professional fee), financial assets at fair value through profit or loss representing equity securities of three companies listed in Hong Kong at fair value of approximately HK\$1.6 million, bank balances and cash of approximately HK\$150.2 million and HK\$66.6 million in trust accounts to hold clients' monies and in general accounts to hold cash held by the Group respectively. The current liabilities were made up of trade payables of approximately HK\$152.0 million, other payables and accruals of approximately HK\$3.6 million and tax payable of approximately HK\$8.8 million.

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As at 31 December 2010, the Group had unaudited net current assets of approximately HK\$58.3 million comprising unaudited current assets of approximately HK\$267.8 million and unaudited current liabilities of approximately HK\$209.5 million. The unaudited current assets as at 31 December 2010 were made up of trade receivables of approximately HK\$10.0 million, other receivables, deposits and prepayments of approximately HK\$5.5 million, financial assets at fair value through profit or loss representing equity securities of four companies listed in Hong Kong or Toronto of approximately HK\$5.2 million (which had fair value of approximately HK\$9.2 million as at the Latest Practicable Date), bank balances and cash of approximately HK\$164.7 million and HK\$82.5 million in trust accounts to hold clients' monies and in general accounts to hold cash held by the Group respectively. The unaudited current liabilities were made up of trade payables of approximately HK\$169.5 million, other payables and accruals of approximately HK\$13.1 million, amount due to a shareholder of HK\$20.0 million and tax payable of approximately HK\$6.9 million.

### Trade receivables and trade payables

The settlement terms of trade receivables arising from the business of dealing in securities are two days after the trade date, and those of trade receivables arising from the business of dealing in futures contracts are one day after the trade date.

According to the risk management policy and procedures of the Group, the Group may at its discretion allow a client an overdue payment for more than two days after the trade date, by way of the granting of a trade limit, based on the client's past settlement record and type and liquidity of stock held with the Group if such amount outstanding when compared with the market value of the client's stock held with the Group is below 50%.

The following sets out the breakdown on trade receivables as at 31 August 2010 of the Group which were over 3 months but less than 1 year past due:

	<b>Amount</b> (HK\$)
Client 1	2,440,187
Client 2	47
Client 3	6
Client 4	23
Client 5	477,779
	<hr/>
Total	<u>2,918,042</u>

The outstanding amount of HK\$2,440,187 and HK\$477,779 had been fully settled on 24 September 2010 and 10 September 2010 respectively. The remaining balance of HK\$76 represents small amounts not settled by clients, which would be reviewed by the Group at the year end to consider if any provision or write-off is necessary.

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The settlement terms of trade payables arising from the business of dealing in securities are two days after the trade date, and those of trade payables arising from the business of dealing in futures contracts are one day after the trade date. As at 31 March 2010, trade payables to cash clients of the Group amounted to approximately HK\$182,431,995, of which approximately HK\$142,385,744 client monies were placed in the Group's bank balances as trust accounts. Certain cash clients sold their stock on 30 March 2010 and 31 March 2010 through Cheong Lee for an aggregate amount of approximately HK\$40.0 million. Cheong Lee would deposit monies from sales of stock to clients' trust accounts only if it received monies from the clearance house, which would take two days after the trade date according to the settlement terms. Accordingly, the difference of approximately HK\$40 million between the amount of trade payables to cash clients and client's monies placed in the Group's trust accounts as at 31 March 2010 was due to the timing difference.

The Group's trade receivables and trade payables amounted to HK\$7,367,834 and HK\$152,025,562 respectively as at 31 August 2010. As at 31 August 2010, cash clients' undrawn monies/excess deposits of approximately HK\$150,236,342 placed with Cheong Lee in its trust accounts were included in trade payables. As at the Latest Practicable Date, trade receivables of HK\$7,358,358 and trade payables of HK\$1,789,220 (not taking into account clients' monies in trust accounts) had already been settled. The Group will review unsettled trade receivables at the year end to consider if any provision or write-off is necessary.

### **Foreign exchange liabilities**

As at the Latest Practicable Date, the Group did not have any foreign exchange liabilities.

### **Dividend**

Pursuant to the resolutions passed at the board meeting of Cheong Lee on 18 September 2008, Cheong Lee declared and paid an interim dividend of HK\$5.68 per share amounting to HK\$852,000 to Ms. Au, the Controlling Shareholder. Pursuant to the resolutions passed at the respective board meetings of Cheong Lee on 9 July 2009, 4 January 2010 and 6 October 2010, quarterly and final dividends of HK\$10 or HK\$16.68 per share in aggregate amounting to HK\$15,008,000 were paid to Ms. Au for the year ended 31 March 2010 and a dividend of HK\$90 per share amounting to HK\$36,000,000 was declared and paid by Cheong Lee to Ms. Au.

The declaration and payment of future dividends and their amounts will be subject to the discretion of the Directors and will depend on, among other things, the Group's operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and such other factors as the Directors may deem relevant. Accordingly, the above dividend payments should not be regarded as an indication of the Company's future dividend policy.

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## FINANCIAL INFORMATION

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### WORKING CAPITAL

The Directors are of the opinion that, taking into account the estimated net proceeds of the Placing and its retained resources, the Group will have sufficient working capital for its present requirements and for at least the next 12 months from the date of this prospectus.

### INDEBTEDNESS

#### Borrowings

As at 31 December 2010 and as at the Latest Practicable Date, the Group had no borrowings outstanding but had been granted overdraft facilities of HK\$10.0 million and facilities pre-arranged with banks for financing the Group's or its clients' applications of securities pursuant to new issues or offers for sale to the public.

#### Capital commitments

As at 31 December 2010 and as at the Latest Practicable Date, the Group did not have any significant capital commitments.

#### Financial resources

Prior to the completion of the Placing, the Group's operations and investments are financed principally by revenues generated from business operations. The Group intends to finance its future operations, capital expenditure and other capital requirements with revenues generated from its business operations, existing bank balances available and the net proceeds from the Placing. As at 31 December 2010, the Group had cash and bank balances of approximately HK\$82.5 million.

#### Security

As at 31 December 2010 and as at the Latest Practicable Date, the Group's overdraft facilities of HK\$10.0 million obtained from the bank were secured against a fixed deposit of not less than HK\$5.0 million from Cheong Lee and personal guarantee from Ms. Au for not less than HK\$10.0 million which will be released or replaced by the Group's corporate guarantee immediately after Listing.

#### Contingent liabilities

As at 31 December 2010 and as at the Latest Practicable Date, the Group did not have any material contingent liabilities.

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### Disclaimer

Save as aforesaid and as otherwise mentioned in the paragraph headed “Borrowings” and “Security” above and apart from normal trade payables, the Group had no outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness or acceptance credits or hire purchase commitments or finance lease commitments or any guarantees or other material contingent liabilities at the close of business on 31 December 2010 and the Latest Practicable Date. The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2010.

### PROPERTY INTERESTS

#### Property interests leased in Hong Kong

The Group leases the following properties from Independent Third Parties:

1. Rooms 1104-1106 on 11th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong
2. Rooms 905-906 on 9th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong

#### Property valuation

The property interests of the Group have been valued by BMI Appraisals Limited, an independent property valuer, at no commercial value as at 31 January 2011. The text of its letter, summary of values and valuation certificates are set out in Appendix III to this prospectus.

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of the Group attributable to the equity holders of the Company which has been prepared for the purpose of illustrating the effect of the Placing as if it had been taken place on 31 August 2010 and based on the audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 as shown in the accountants' report set out in Appendix I to this prospectus and the adjustments described below.

	<b>Audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 HK\$ (Note 1)</b>	<b>Estimated net proceeds from the Placing HK\$ (Note 2)</b>	<b>Unaudited pro forma adjusted combined net tangible assets HK\$</b>	<b>Unaudited pro forma adjusted combined net tangible assets per Share HK cents (Note 3)</b>
Based on the Placing Price of HK\$0.480 per Placing Share	<u>77,890,804</u>	<u>104,689,000</u>	<u>182,579,804</u>	<u>18.26</u>
Based on the Placing Price of HK\$0.495 per Placing Share	<u>77,890,804</u>	<u>108,326,500</u>	<u>186,217,304</u>	<u>18.62</u>

This statement is presented for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group following the Placing.

*Notes:*

- (1) The audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 has been extracted without adjustment from the accountants' report set out in Appendix I to this prospectus.

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- (2) Estimated net proceeds from the Placing of shares.

	Based on indicative Placing Price of HK\$0.48 per Share HK\$	Based on indicative Placing Price of HK\$0.495 per Share HK\$
Gross proceeds from the Placing of shares	120,000,000	123,750,000
Underwriting fees and other expenses associated with the Placing of shares	(15,311,000)	(15,423,500)
	<u>104,489,000</u>	<u>108,326,500</u>

- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Placing. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Schemes, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus or otherwise.
- (4) Pursuant to the resolutions passed at the board of directors' meetings of Cheong Lee on 6 October 2010, dividends of HK\$36,000,000 were declared and paid to Ms. Au. As the declaration and payment of dividend were subsequent to the Track Record Periods, the dividend has not been recognised as liabilities in the combined statement of financial position of the Group as at 31 August 2010. Subsequent payment of the dividends will reduce the Group's net tangible asset position by HK\$36,000,000. The unaudited proforma adjusted combined net assets per Share, in turn, will be reduced by HK3.6 cents.

### DISTRIBUTABLE RESERVES

There was no reserve available for distribution to the Shareholders as at 31 August 2010, as the Company was incorporated in 27 August 2010. It has not carried out any business since the date of its incorporation save for the transactions related to the Reorganisation.

### DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Ms. Au provided a personal guarantee for not less than HK\$10.0 million to secure the Group's overdraft facilities of HK\$10.0 million obtained from a bank. The personal guarantee will be released or replaced by the Group's corporate guarantee immediately after Listing. Save as disclosed, the Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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## FINANCIAL INFORMATION

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### TAX

The Group's profits arising in or derived from Hong Kong are subject to Hong Kong profits tax. Provision for Hong Kong profits tax has been calculated at the applicable rate of 16.5% for each of the two years ended 31 March 2010 and the five months ended 31 August 2009 and 2010, on the estimated assessable profits of the Group arising in Hong Kong.

### NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "Financial performance for the nine months ended 31 December 2010 and the possible impact of certain non-recurring expenses to financial performance" of this section, the Directors confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group and no event had occurred that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus since 31 August 2010, being the date to which the latest audited financial statements of the Group were made up, and during the period from 1 September 2010 to the Latest Practicable Date (both dates inclusive).

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## SPONSOR'S INTEREST AND INDEPENDENCE

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VC Capital, being the Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save as disclosed in this prospectus and provided for under the Underwriting Agreement, neither VC Capital nor any of its associates and none of the directors or employees of VC Capital who have been involved in providing advice to the Company as the Sponsor, has or may, as a result of the Placing, have any interest in any securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities). Neither VC Capital nor any of its associates has accrued/will accrue any material benefit as a result of the successful outcome of the Placing and Listing, other than the following:

- (i) by way of documentation and financial advisory fee paid and to be paid by the Company to VC Capital for acting as the Sponsor;
- (ii) in its appointment as the compliance adviser of the Company for the purpose of the GEM Listing Rules for a fee from the Listing Date to the date on which the Company distributes the annual report for the second full financial year commencing after the Listing Date in accordance with Rule 18.03 of the GEM Listing Rules, or until the compliance adviser agreement is otherwise terminated upon the terms and conditions set out therein;
- (iii) in the taking up by VC Brokerage Limited (滙盈證券有限公司), an associate of VC Capital, of the underwriting obligations under the Underwriting Agreement;
- (iv) by way of an underwriting commission to be paid by the Company to VC Brokerage Limited (滙盈證券有限公司) for acting as one of the Underwriters to the Placing pursuant to the Underwriting Agreement; and
- (v) by way of commissions derived from (a) the trading of and dealing in the securities of the Company; or (b) the provision of margin financing in connection thereto; or (c) the purchase or sale of securities of the Company; or (d) the holding of securities of the Company for investment purposes after the Listing by certain associates of VC Capital, whose usual and ordinary courses of business involve trading of and dealing in securities.

In addition, none of the directors or employees of VC Capital has any directorship in any companies comprising the Group as at the Latest Practicable Date or from time to time.

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## UNDERWRITERS

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### UNDERWRITERS

VC Brokerage Limited

SBI E2-Capital Securities Limited

China Merchants Securities (HK) Co., Limited

### UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing at the Placing Price, on and subject to the terms and conditions in the Underwriting Agreement and this prospectus.

Subject to, among other conditions, the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being satisfied or waived on or before the 30th day after the date of this prospectus (or such later date as the Company and the Lead Manager (for itself and on behalf of the Underwriters) may agree), the Underwriters have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Placing.

#### Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriters) shall have the absolute right upon giving a written notice to the Company to terminate the Underwriting Agreement if any of the following events occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on 8 March 2011):

- (a) if there has come to the notice of the Lead Manager:–
  - (i) that any statement, considered by the Lead Manager (for itself and on behalf of the Underwriters) to be material, contained in any of the placing documents in relation to the Placing was when the same was issued, or has become, untrue, incorrect or misleading in any material respect; or

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## UNDERWRITERS

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- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Lead Manager (for itself and on behalf of the other Underwriters) to be material to the Placing; or
  - (iii) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters or VC Capital); or
  - (iv) any change or development involving a prospective change in the conditions, business affairs, prospects or the financial or trading position of the Group as a whole; or
  - (v) any breach, reasonably considered by the Lead Manager (for itself and on behalf of the other Underwriters) to be material, of any of the warranties of the Underwriting Agreement;
- (b) there shall develop, occur, exist or come into effect:–
- (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the BVI, or any other relevant jurisdiction; or
  - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in local, national or international, financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Cayman Islands, Hong Kong, the PRC, the BVI, or any other relevant jurisdiction; or
  - (iii) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchange or by such system or by order of any regulatory or governmental authority, or if a disruption has occurred in securities settlement or clearance services or procedures in the Cayman Islands, Hong Kong, the BVI, or any other relevant jurisdiction; or

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## UNDERWRITERS

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- (iv) a change or development occurs involving a change in taxation or exchange control (or the implementation of any exchange control) or currency exchange rates in the Cayman Islands, Hong Kong, the BVI, or any other relevant jurisdiction; or
- (v) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of the Company or any member of the Group, including any litigation or claim of any third party being threatened or instigated against the Company or any member of the Group; or
- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (vii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or other competent authority), the Cayman Islands, the BVI or any other relevant jurisdiction; or
- (viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving Hong Kong, the Cayman Islands, the BVI or any escalation thereof, or the declaration by Hong Kong, the BVI or the Cayman Islands, of a national emergency or war; or
- (ix) any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving the PRC, Hong Kong, the BVI, the Cayman Islands, or any other relevant jurisdiction which, in the sole and reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters):
  - (A) is or may be or is likely to be materially adverse to the business, financial or other condition or prospects of the Company or the Group or, in the case of sub-paragraph (iv) above, to any present or prospective shareholder of the Company in his/her/its capacity as such; or

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## UNDERWRITERS

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- (B) has or might have or is likely to have a material adverse effect on the success of the Placing or the level of the Placing Shares being applied for or accepted or the distribution of the Placing Shares; or
  - (C) makes it inadvisable, inexpedient or impracticable to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus; or
- (c) there comes to the notice of the Lead Manager any matter or event showing any of the warranties given by the Company and the warrantors in the Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or, in the sole and reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters), is likely to be material in the context of the Placing when given or repeated; or
- (d) there comes to the notice of the Lead Manager any breach on the part of the Company of any of the provisions of the Underwriting Agreement; or
- (e) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
- (f) any statement contained in this prospectus, the Placing Shares, the formal notice of the Company and any announcements in the agreed form issued by the Company in connection with the Placing (including any amendment or supplement thereto) was, has or may become untrue, incorrect or misleading in any material respect; or
- (g) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Group pursuant to the indemnities referred to in the Underwriting Agreement; or
- (h) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity is made, which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or

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## UNDERWRITERS

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- (i) a petition is presented for the winding-up or liquidation of the Company or any member of the Group, or the Company or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up, of the Company or any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any member of the Group or anything analogous thereto occurs in respect of the Company or any member of the Group, which in the sole and reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters), may or is likely to be material in the context of the Placing provided that the Lead Manager (for itself and on behalf of the Underwriters) shall, to the extent practicable, seek to consult with the Company on the effect of any such development, following which the Lead Manager (for itself and on behalf of the Underwriters) may, upon giving notice in writing to the Company, terminate the Underwriting Agreement with immediate effect,

which in the sole and reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters) (1) is or will have or could be expected to have material adverse effect on the business, financial or other condition or prospects of the Group as a whole or in the case of the above (b)(v), to any present or prospective shareholder of the Company in his, her or its capacity as such; or (2) has or will have or could reasonably be expected to have material adverse effect on the success, marketability or pricing of the Placing or the level of applications under the Placing; or (3) makes it inadvisable, inexpedient or impracticable for the Placing to proceed.

### **Commissions, fees and expenses**

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Placing Price of all of the Placing Shares, out of which they will pay any sub-underwriting commissions payable, and the Sponsor will receive a combined sponsorship, financial advisory and documentation fee in relation to the Placing and will be reimbursed for their expenses. Such commission, advisory and documentation fee and expenses, together with the GEM listing fees, legal and other professional fees, and printing and other costs and expenses relating to the Placing and Listing, which are estimated to amount in aggregate to approximately HK\$15.4 million and are to be borne by the Company.

### **Underwriters' interest in the Company**

Save as provided for under the Underwriting Agreement, none of the Underwriters has any shareholding interests in any member of the Group nor has any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares.

## **UNDERTAKINGS**

Each of the Controlling Shareholders has undertaken to and covenanted with the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange for a period commencing on the date by reference to which disclosure of her/its shareholding in the Company is made in this prospectus and ending on the date which is 12 months following the Listing Date that:

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## UNDERWRITERS

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- (a) in the first 6-month period, she/it shall not and shall procure that the relevant registered holders shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which she/it is shown by this prospectus to be the beneficial owner;
- (b) in the period of 6 months commencing on the date immediately following the date on which the first 6-month period referred to in paragraph (a) above expires, she/it shall not and shall procure that the relevant registered holders shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, she/it would cease to be a Controlling Shareholder;
- (c) in the event that she/it pledges or charges any of her/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraphs (a) and (b) above, she/it must inform the Company and the Lead Manager (for itself and on behalf of the Underwriters) immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (d) having pledged or charged any of her/its interests in the Shares under paragraph (c) above, she/it must inform the Company and the Lead Manager (for itself and on behalf of the Underwriters) immediately in the event that she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares so affected.

The Company has undertaken to and covenanted with the Sponsor, the Lead Manager and the Underwriters, and each of the Controlling Shareholders and the executive Directors has undertaken to and covenanted with the Lead Manager and the Underwriters to procure that, save with the prior written consent of the Sponsor, the Lead Manager (for itself and on behalf of the Underwriters) or save pursuant to the Placing, or the grant of any option under the Pre-IPO Share Option Scheme or Share Option Scheme, the Company will not, within six months from the Listing Date (a) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, offer, allot or issue or agree to allot or issue any Shares or any other securities of the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any Shares or any other securities of the Company, and (b) purchase any Shares or any other securities of the Company.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### PRICE PAYABLE ON SUBSCRIPTION

The Placing Price plus a 1% brokerage fee, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee make up total price payable in cash on subscription.

### CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein on GEM;
- (ii) the agreement on the Placing Price between the Company and the Lead Manager (for itself and on behalf of the Underwriters) being entered into on or before the Price Determination Date; and
- (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 March 2011, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the Exchange Website on the next business day following such lapse.

### THE PLACING

250,000,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of the Company.

The Placing is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company, will conditionally place 250,000,000 Placing Shares at the Placing Price to selected individual, professional and institutional investors in Hong Kong. Professional and institutional investors generally include brokers, dealers, companies, high net worth individuals and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

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## **STRUCTURE AND CONDITIONS OF THE PLACING**

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### **BASIS OF ALLOCATION**

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. There will not be any preferential treatments in the allocation of the Placing Shares to any persons. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

### **COMMENCEMENT OF DEALINGS**

Dealings in the Shares on GEM are expected to commence on 8 March 2011. The Shares will be traded in board lots of 5,000 Shares each.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

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

In respect of the dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### PLACING PRICE

The Placing Price is expected to be fixed by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date, which is currently scheduled on or before Wednesday, 2 March 2011.

If the Company and the Lead Manager (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Date or such later date as agreed by the Company and the Lead Manager (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will not proceed.

The Placing Price will not be more than HK\$0.495 per Placing Share and is currently expected to be not less than HK\$0.480 per Placing Share. The final Placing Price will fall within the indicative Placing Price range as stated in this prospectus unless otherwise announced, as further explained below.

The final Placing Price, the level of indication of interest in the Placing and the basis of allocation of the Placing Shares, are expected to be announced on the Exchange Website on or before 7 March 2011.

If, based on the level of indication of interest expressed by prospective institutional, professional or other investors during the book-building process, the Lead Manager (for itself and on behalf of the Underwriters) consider it appropriate, and with the consent of the Company, the indicative Placing Price range may be reduced below that stated in this prospectus at any time on or before the Price Determination Date. In such a case, the Company will, as soon as practicable following the decision to make such reduction, cause to be published on the Exchange Website an announcement of such change. Such announcement will also include confirmation or revision, as appropriate, of the working capital statement, the Placing statistics, as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any announcement being published on the Exchange Website of a reduction in the indicative Placing Price range stated in this prospectus in the manner set out herein, the final Placing Price, upon agreed by the Lead Manager and the Company, will under no circumstances be set outside the Placing Price range as stated in this prospectus.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, HLM & Co., Certified Public Accountants, Hong Kong.*

**恒健會計師行**  
**HLM & Co.**  
**Certified Public Accountants**

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28 February 2011

The Board of Directors  
CL Group (Holdings) Limited  
VC Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) related to CL Group (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the years ended 31 March 2009, 2010 and five months ended 31 August 2010 (the “Track Record Period”) for inclusion in the prospectus of the Company dated 28 February 2011 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM of the Stock Exchange”).

The Company was incorporated and registered as an exempted limited liability company in the Cayman Islands under the Companies Law of the Cayman Islands on 27 August 2010. The principal activity of the Company is investment holding. Through a group reorganisation as more fully explained in the paragraph headed “Corporate reorganisation” in Appendix V to the Prospectus (the “Reorganisation”), the Company became the holding company of the Group.

As at the date of this report, no audited financial statements have been prepared for the Company and CL Group (BVI) Limited as they were newly incorporated and have not carried out any significant business transactions except for the Reorganisation as set out in note 1 of Section II below. All companies comprising the Group have adopted 31 March as their financial year end date. We have, however, reviewed all significant transactions of these companies for the periods from their respective dates of incorporation to 31 August 2010, for the purpose of this report.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). The particulars of the subsidiaries are set out below:

Name of subsidiary	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
<b>Directly owned subsidiary</b>				
CL Group (BVI) Limited ("Cheong Lee BVI") (note a)	British Virgin Islands ("BVI"), 15 September 2010	US\$1	100%	Investment holding
<b>Indirectly owned subsidiary</b>				
Cheong Lee Securities Limited ("Cheong Lee") (note b)	Hong Kong, 10 November 2004	HK\$40,000,000	100%	Provision of securities and futures brokerage and trading and providing placing and underwriting services

*Notes:*

- (a) No audited financial statements have been prepared for Cheong Lee BVI for the period from the date of its incorporation/establishment as it has not reached its first financial year end in accordance with the relevant rules and regulations in BVI.
- (b) The statutory financial statements of Cheong Lee were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements for the year ended 31 March 2009 and 31 March 2010 were audited by Ronny Wah, Chan Certified Public Accountant (Practising) and us, respectively.

**BASIS OF PREPARATION**

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Track Record Period (the "Underlying Financial Statements"), based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period, and the combined statements of financial position of the Group as at 31 March 2009, 2010 and five months ended 31 August 2010 together with the notes thereto (collectively the “Combined Financial Information”) have been prepared based on the Underlying Financial Statements on the basis set out in note 1 of Section II below, for the purpose of preparing this report for inclusion in the Prospectus. Adjustments have been made on the Underlying Financial Statements for the Track Record Period are considered necessary for the purpose of preparing the Combined Financial Information which are in accordance with HKFRSs promulgated by the HKICPA. The Combined Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

#### **RESPECTIVE RESPONSIBILITY OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the preparation of the Combined Financial Information which gives a true and fair view and the contents of the Prospectus in which this report is included. The responsibility includes of designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Combined Financial Information that are 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.

It is our responsibility to form an independent opinion on the Combined Financial Information based on our audit procedures.

#### **BASIS OF OPINION**

For the purpose of this report, we have carried out an independent audit on the Combined 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 the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” 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 Combined Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risk of material misstatement of the Combined 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 Combined 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 estimate made by the directors, as well as evaluating the overall presentation of the Combined 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 statement of the companies comprising the Group in respect of any period subsequent to 31 August 2010.

#### **OPINION**

In our opinion, the Combined Financial Information, for the purpose of this report, prepared on the basis set out in note 1 of Section II below, gives a true and fair view of the state of affairs of the Group as at 31 March 2009, 2010 and 31 August 2010 and of the combined results and combined cash flows of the Group for the Track Record Period.

#### **COMPARATIVE FINANCIAL INFORMATION**

##### **Respective responsibility of directors and reporting accountants**

The directors of the Company are responsible for the preparation of the unaudited combined financial information of the Group including the combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the five months ended 31 August 2009 (the "Comparative Financial Information"), together with the notes thereon.

It is our responsibility to form an independent conclusion, based on our review, on the Comparative Financial Information.

**Review work performed**

For the purpose of this report, we have reviewed the unaudited Comparative Financial Information, together with the notes thereto in accordance with Hong Kong Standard of Review Engagements 2410 “Review of Interim Financial Information Performed by Independent Auditor of the Entity” issued by HKICPA. Our review of the Comparative Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

**Review conclusion**

Based on our review which does not constitute an audit, nothing has come to our attention that causes us to believe that the Comparative Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Combined Financial Information which conform with Hong Kong Financial Reporting Standards.

**I. COMBINED FINANCIAL INFORMATION**

**1. COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

		Year ended 31 March		Five months ended 31 August	
		2009	2010	2009	2010
	NOTES	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Turnover	6	21,069,422	73,320,765	30,656,084	22,230,602
Net other (loss) income	7	(1,783,823)	1,855,694	432,211	(180,285)
Administrative expenses		(15,171,732)	(28,724,167)	(9,658,604)	(11,249,514)
Finance costs	8	(60)	(184,536)	(27,945)	–
Profit before taxation	9	4,113,807	46,267,756	21,401,746	10,800,803
Income tax expenses	12	(674,832)	(7,609,382)	(3,521,898)	(1,878,173)
Profit for the year/period attributable to the owners of the Company		3,438,975	38,658,374	17,879,848	8,922,630
Other comprehensive income					
Net change in fair value on available-for-sale financial assets		–	1,970,116	–	(55,580)
Total comprehensive income for the year/period attributable to the owners of the Company		3,438,975	40,628,490	17,879,848	8,867,050
Dividends	13	852,000	15,008,000	5,000,000	–

## 2. COMBINED STATEMENTS OF FINANCIAL POSITION

		At 31 March		At 31 August
		2009	2010	2010
	NOTES	HK\$	HK\$	HK\$
<b>Non-current assets</b>				
Plant and equipment	15	2,218,310	2,278,056	2,194,860
Intangible assets	16	–	279,120	250,045
Other assets	17	205,000	1,775,530	1,776,110
Available-for-sale financial assets	18	–	9,723,483	9,667,903
		<u>2,423,310</u>	<u>14,056,189</u>	<u>13,888,918</u>
<b>Current assets</b>				
Trade receivables	19	5,859,087	48,921,036	7,367,834
Other receivables, deposits and prepayments	20	1,107,811	1,212,872	3,158,590
Financial assets at fair value through profit or loss	21	1,261,138	1,930,400	1,631,152
Bank balances and cash – trust accounts	22	53,237,734	142,385,744	150,236,342
Bank balances and cash – general accounts	22	<u>20,930,604</u>	<u>59,787,786</u>	<u>66,595,477</u>
		<u>82,396,374</u>	<u>254,237,838</u>	<u>228,989,395</u>
<b>Current liabilities</b>				
Trade payables	23	57,648,468	188,991,829	152,025,562
Other payables and accruals	24	2,644,609	2,616,024	3,575,024
Tax payable		<u>609,298</u>	<u>7,101,037</u>	<u>8,841,431</u>
		<u>60,902,375</u>	<u>198,708,890</u>	<u>164,442,017</u>
<b>Net current assets</b>		<u>21,493,999</u>	<u>55,528,948</u>	<u>64,547,378</u>
<b>Total assets less current liabilities</b>		<u>23,917,309</u>	<u>69,585,137</u>	<u>78,436,296</u>
<b>Non-current liability</b>				
Deferred tax liabilities	25	<u>264,000</u>	<u>311,338</u>	<u>295,447</u>
<b>Net assets</b>		<u>23,653,309</u>	<u>69,273,799</u>	<u>78,140,849</u>
<b>Capital and reserves</b>				
Share capital	26	20,000,000	40,000,000	7,500,000
Reserves		<u>3,653,309</u>	<u>29,273,799</u>	<u>70,640,849</u>
		<u>23,653,309</u>	<u>69,273,799</u>	<u>78,140,849</u>

## 3. COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$</i>	Merger reserve <i>HK\$</i>	Investments revaluation reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1 April 2008	15,000,000	–	–	1,066,334	16,066,334
Issue of shares	5,000,000	–	–	–	5,000,000
Total comprehensive income for the year	–	–	–	3,438,975	3,438,975
Dividends paid for the year	–	–	–	(852,000)	(852,000)
At 31 March 2009 and 1 April 2009	20,000,000	–	–	3,653,309	23,653,309
Issue of shares	20,000,000	–	–	–	20,000,000
Total comprehensive income for the year	–	–	1,970,116	38,658,374	40,628,490
Dividends paid for the year	–	–	–	(15,008,000)	(15,008,000)
At 31 March 2010 and 1 April 2010	40,000,000	–	1,970,116	27,303,683	69,273,799
Total comprehensive income for the period	–	–	(55,580)	8,922,630	8,867,050
Shares swap pursuant to group reorganisation	(32,500,000)	32,500,000	–	–	–
At 31 August 2010	<u>7,500,000</u>	<u>32,500,000</u>	<u>1,914,536</u>	<u>36,226,313</u>	<u>78,140,849</u>

	Share capital <i>HK\$</i>	Merger reserve <i>HK\$</i>	Investments revaluation reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
<b>Unaudited</b>					
At 1 April 2009	20,000,000	–	–	3,653,309	23,653,309
Issue of shares	10,000,000	–	–	–	10,000,000
Total comprehensive income for the period	–	–	–	17,879,848	17,879,848
Dividends paid for the period	–	–	–	(5,000,000)	(5,000,000)
At 31 August 2009	<u>30,000,000</u>	<u>–</u>	<u>–</u>	<u>16,533,157</u>	<u>46,533,157</u>

**4. COMBINED STATEMENTS OF CASH FLOWS**

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
<b>OPERATING ACTIVITIES</b>				
Profit before taxation	4,113,807	46,267,756	21,401,746	10,800,803
Adjustments for:				
Depreciation of plant and equipment	1,029,680	1,076,183	372,907	377,731
Amortisation of intangible assets	–	69,780	–	29,075
Loss on disposal of plant and equipment	–	–	–	5,053
Net change in fair value of financial assets at fair value through profit or loss	2,467,065	(1,116,721)	(65,773)	299,650
Gain on trading of financial assets at fair value through profit or loss	(676,224)	(639,608)	(356,679)	(49,256)
Interest income	(509,026)	(1,096,432)	(271,405)	(699,590)
Interest expenses	60	184,536	27,945	–
Dividend income	–	(9,758)	(9,758)	–
Operating cash flows before movements in working capital	6,425,362	44,735,736	21,098,983	10,763,466
(Increase) decrease in trade receivables	(2,861,813)	(43,061,949)	(8,183,795)	41,553,202
(Increase) decrease in other receivables, deposits and prepayments	(418,087)	(105,061)	131,948	(1,945,718)
Decrease (increase) in other assets	25,000	(1,570,530)	(25,000)	(580)
Increase in bank balances and cash – trust account	(37,660,098)	(89,148,010)	(34,661,494)	(7,850,598)
Increase (decrease) in trade payables	39,613,070	131,343,361	39,066,401	(36,966,267)
Increase (decrease) in other payables and accruals	749,971	(28,585)	1,608,173	959,000
Cash generated from operations	5,873,405	42,164,962	19,035,216	6,512,505
Hong Kong profits tax paid	–	(1,070,305)	–	(153,670)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>5,873,405</b>	<b>41,094,657</b>	<b>19,035,216</b>	<b>6,358,835</b>

**APPENDIX I****ACCOUNTANTS' REPORT**

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
<b>INVESTING ACTIVITIES</b>				
Interest received	509,026	1,096,432	271,405	699,590
Dividends received	–	9,758	9,758	–
Purchase of plant and equipment	(1,237,386)	(1,135,929)	(693,190)	(299,588)
Purchase of intangible assets	–	(348,900)	–	–
Purchase of financial assets at fair value through profit or loss	(9,539,395)	(17,053,858)	(12,358,781)	(1,985,105)
Proceeds from disposal of financial assets at fair value through profit or loss	6,650,166	18,140,925	13,259,611	2,033,959
Purchase of available-for-sale financial assets	–	(7,753,367)	–	–
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>	<u>(3,617,589)</u>	<u>(7,044,939)</u>	<u>488,803</u>	<u>448,856</u>
<b>FINANCING ACTIVITIES</b>				
Dividends paid	(852,000)	(15,008,000)	(5,000,000)	–
Interest paid	(60)	(184,536)	(27,945)	–
Proceeds from issue of shares	5,000,000	20,000,000	10,000,000	–
Repayment of amount due to sole shareholder	(259,514)	–	–	–
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<u>3,888,426</u>	<u>4,807,464</u>	<u>4,972,055</u>	<u>–</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>6,144,242</u>	<u>38,857,182</u>	<u>24,496,074</u>	<u>6,807,691</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD</b>	<u>14,786,362</u>	<u>20,930,604</u>	<u>20,930,604</u>	<u>59,787,786</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD</b>	<u><u>20,930,604</u></u>	<u><u>59,787,786</u></u>	<u><u>45,426,678</u></u>	<u><u>66,595,477</u></u>
<b>ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances	<u><u>20,930,604</u></u>	<u><u>59,787,786</u></u>	<u><u>45,426,678</u></u>	<u><u>66,595,477</u></u>

**II. NOTES TO THE COMBINED FINANCIAL INFORMATION****1. Corporate information and basis of presentation**

The Company was incorporated in the Cayman Islands as a exempted limited liability company on 27 August 2010. The Company is an investment holding company. Particulars of the subsidiaries (together with the Company are collectively referred to the Group) have been set out in the foregoing section. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to the Reorganisation as detailed in the subsection headed "Corporate reorganisation" in Appendix V to the Prospectus, in preparation for the listing of shares of the Company on the GEM of the Stock Exchange and for the purpose of rationalising the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group on 22 February 2011. The Reorganisation involved business combinations of entities under common control before and immediately after the Reorganisation. Consequently, immediately after the Reorganisation, there was a continuation of the risks and benefits to the controlling parties that existed prior to the Reorganisation. The Group is regarded and accounted for as a continuing group resulting from the Reorganisation since all of the entities which took part in the Reorganisation were under common control in a manner similar to pooling of interests. Accordingly, for the purpose of this report, the Combined Financial Information has been prepared on a combined basis by applying the principles of merger accounting in accordance with the Accounting Guideline No. 5, "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The Combined Financial Information has been presented as if the current group structure had been in existence throughout the Track Record Period or from the respective dates of incorporation of the companies comprising the Group, where there is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

The Combined Financial Information is presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company.

## 2. Significant accounting policies

### *Statement of compliance*

The Combined Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standard ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC) – Int") issued by the HKICPA. The Combined Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

### *Basis of preparation of the combined financial information*

During the Track Record Period, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting year and relevant to the Group. The adoption of these new and amended HKFRSs did not result in material changes to the Group's accounting policies.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 will affect the classification and measurement of financial assets, as well as the presentation of relevant information to users of financial statements.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Combined Financial Information.

The Combined Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

The financial statements have been prepared in accordance with HKFRSs issued by HKICPA and the Hong Kong Companies Ordinance.

***Basis of combination***

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on combination.

***Business combination under common control***

The Financial Information incorporates the financial statement 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 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 acquirers' 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 party's 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 the combining entities first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination.

***Subsidiary***

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable arising from financial services and is recognised on the following basis:

- i) Commission income for broking business of securities, futures and options dealing is recorded as income on a trade-date basis.
- ii) Underwriting commission income, sub-underwriting commission income, placing commission and related handling fee whether on an underwritten or on a best effort basis are recognised when the shares are allotted to the placees.
- iii) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- iv) Handling service fees and dividend collection fees are recognised when the agreed services have been provided.
- v) Profit and loss from trading in financial assets at fair value through profit or loss are recognised when the relevant contract notes are executed.

***Plant and equipment***

Plant and equipment are stated at cost less depreciation and accumulated impairment losses. Depreciation is provided to write off the cost or valuation of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rate per annum:

Leasehold improvements	50% or remaining lease term
Furniture & equipment	20%
Computer equipment	20%

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the combined statements of comprehensive income in the year/period in which the item is derecognised.

***Intangible assets***

Intangible assets represent the trading rights, with which the holders have the rights to trade on the Stock Exchange and Hong Kong Futures Exchange Limited ("HKFE"). On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the combined statements of comprehensive income when the asset is derecognised.

***Operating lease***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Borrowing costs***

All borrowing costs are recognised as and included in finance costs in the combined statements of comprehensive income in the period in which they are incurred.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

For the purpose of presenting combined financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non- controlling interests as appropriate).

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange difference accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For all other partial disposal (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation before 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reporting using historical cost prevailing at the date of acquisition.

***Taxation***

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit differs from profit as reported in the combined statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its asset and liabilities. Deferred tax is recognised in profit and loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

***Impairment losses on tangible and intangible assets other than goodwill***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation increase under that standard.

***Provisions***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

### ***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 maybe aggregated if they share a majority of these criteria.

### ***Financial instruments***

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale ("AFS") financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that from an integral of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at FVTPL, of which interest income is included in net gains and losses.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect on impairment loss on financial assets below).

### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed if an increase in the fair value of investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Financial liabilities and equity*

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which interest expense is included in net gains and losses.

### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of an identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designed as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

#### Other financial liabilities

Other financial liabilities (including borrowings, a loan from government, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

*Retirement benefit costs*

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK\$1,000 per month for each employee.

Payment to defined contribution retirement benefit plans, state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

***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.

**3. Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Depreciation and amortisation***

The Group depreciates and amortises the plant and equipment and intangible assets over their estimated useful lives respectively and after taking into account their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and equipment and intangible assets. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

**4. 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.

***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. 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. For futures broking, initial margin is required before opening of a trading position. Market conditions and adequacy of securities collateral and margin deposits of each 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 statement of financial position. 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 the Financial Resources Rules. 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 longer term. All of the Group's liabilities are expected to be settled within one year. And the carrying amounts of all financial liabilities equal to the contractual undiscounted cash outflow.

### ***Interest rate risk***

#### ***i. Interest rate profile***

The Group charged interest on its cash clients on the basis of its cost of funding plus a mark-up. Financial assets such as deposits with banks are primarily at floating 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 end of reporting period is as follows:

	At 31 March 2009		At 31 March 2010		At 31 August 2010	
	<i>Effective</i>		<i>Effective</i>		<i>Effective</i>	
	<i>interest</i>		<i>interest</i>		<i>interest</i>	
	<i>rate</i>	<i>HK\$</i>	<i>rate</i>	<i>HK\$</i>	<i>rate</i>	<i>HK\$</i>
<b>Asset</b>						
Bank balances and cash – trust accounts	0.01-2.65%	53,237,734	0.001-0.85%	142,385,744	0.001-0.50%	150,236,342
Bank balances and cash – general accounts	0.01-2.65%	<u>20,930,604</u>	0.001-0.85%	<u>59,787,786</u>	0.001-0.50%	<u>66,595,477</u>
		<u>74,168,338</u>		<u>202,173,530</u>		<u>216,831,819</u>

ii. *Sensitivity analysis*

As at 31 March 2009, 31 March 2010 and 31 August 2010 if interest rates had been 1 basis point higher/lower with all other variables held constant, the Group's profit before taxation would have increased/decreased by approximately HK\$7,400, HK\$20,200 and HK\$21,600 respectively.

The increase/decrease in profit before taxation results mainly from higher/lower interest income from deposits with banks. 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 year/period ended and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of reporting period.

***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.

***Price risk management***

The Group's investments in equity listed in Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments with different risk profiles.

***Sensitivity analysis***

The sensitivity analysis below has been determined based on the exposure to equity price risk at the Track Record Period. For sensitivity analysis purpose, the sensitivity rate is increased to 5% in the current year/period as a result of the volatile financial market.

If listed equity prices had been 5% higher/lower, profit for the Track Record Period would increase/decrease as follow:

	<b>At 31 March</b>		<b>At 31August</b>
	<b>2009</b>	<b>2010</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Fair value changes	<u>63,057</u>	<u>96,520</u>	<u>81,558</u>

This is mainly due to the changes in fair value of financial assets at fair value through profit or loss.

***Fair values***

The following table provides an analysis of financial instruments that are measures subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1: fair values measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair values measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	<b>31 March 2009</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Assets			
Financial assets at fair value			
through profit or loss	1,261,138	–	1,261,138

	<b>31 March 2010</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Assets			
Financial assets at fair value			
through profit or loss	1,930,400	–	1,930,400
Available-for-sale financial			
assets	–	9,723,483	9,723,483
	1,930,400	9,723,483	11,653,883

	31 August 2010		
	Level 1	Level 2	Total
	HK\$	HK\$	HK\$
Assets			
Financial assets at fair value			
through profit or loss	1,631,152	–	1,631,152
Available-for-sale financial			
assets	–	9,667,903	9,667,903
	<u>1,631,152</u>	<u>9,667,903</u>	<u>11,299,055</u>

There were no transfers between Levels 1 and 2 in the Track Record Period.

The fair values of financial instruments are determined as follows:

- The fair values of financial assets with standard terms and conditions and traded in active markets are based on quoted market prices at the end of the reporting period without deduction for transaction costs.
- The fair values of available-for-sales financial assets are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

### ***Capital risk management***

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Debt is total bank borrowings (including current and non-current bank borrowings). Total capital is calculated as "equity", as shown in the statement of financial position, plus debt.

As at 31 March 2009, 31 March 2010 and 31 August 2010, the Group has no bank borrowings and, accordingly, the gearing ratio during the Track Record Period is 0%.

**5. Business and geographical segments*****Business segments***

The Group is principally engaged in two main operating divisions, namely, securities and futures broking and placing and underwriting. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- |                                |   |
|--------------------------------|---|
| Securities and futures broking | – Provision of securities and futures and other wealth management products broking services |
| Placing and underwriting       | – Provision of placing and underwriting services  |

All of the activities of the Group are based in Hong Kong and all of the Group's revenue is derived from Hong Kong. Accordingly, no analysis by geographical segments is presented.

**For the year ended 31 March 2009**

	<b>Securities and futures Broking HK\$</b>	<b>Placing and underwriting HK\$</b>	<b>Total HK\$</b>
<b>REVENUE</b>			
Segment revenue	<u>20,628,686</u>	<u>262,781</u>	<u>20,891,467</u>
<b>RESULTS</b>			
Segment results	<u>8,774,182</u>	<u>216,389</u>	8,990,571
Loss from investments			(1,790,841)
Other interest income			177,955
Other income			7,018
Unallocated other operating expenses			(3,270,836)
Finance costs			<u>(60)</u>
Profit before taxation			4,113,807
Income tax expenses			<u>(674,832)</u>
Profit for the year			<u><u>3,438,975</u></u>

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**APPENDIX I**

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**ACCOUNTANTS' REPORT**

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	<b>Securities and futures Broking HK\$</b>	<b>Placing and underwriting HK\$</b>	<b>Total HK\$</b>
<b>ASSETS</b>			
Segment assets	<u>61,520,131</u>	<u>—</u>	61,520,131
Unallocated corporate assets			<u>23,299,553</u>
Total assets			<u>84,819,684</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>60,132,174</u>	<u>—</u>	60,132,174
Unallocated corporate liabilities			<u>1,034,201</u>
Total liabilities			<u>61,166,375</u>
<b>OTHER INFORMATION</b>			
Additions to plant and equipment	1,237,386	—	1,237,386
Depreciation of plant and equipment	<u>1,029,680</u>	<u>—</u>	<u>1,029,680</u>

For the year ended 31 March 2010

	Securities and futures Broking <i>HK\$</i>	Placing and underwriting <i>HK\$</i>	Total <i>HK\$</i>
REVENUE			
Segment revenue	<u>40,889,385</u>	<u>32,288,270</u>	<u>73,177,655</u>
RESULTS			
Segment results	<u>24,005,441</u>	<u>26,182,008</u>	50,187,449
Gain from investments			1,762,227
Other interest income			143,110
Other income			93,467
Unallocated other operating expenses			(5,907,300)
Finance costs			<u>(11,197)</u>
Profit before taxation			46,267,756
Taxation			<u>(7,609,382)</u>
Profit for the year			<u><u>38,658,374</u></u>

**APPENDIX I****ACCOUNTANTS' REPORT**

	<b>Securities and futures Broking HK\$</b>	<b>Placing and underwriting HK\$</b>	<b>Total HK\$</b>
<b>ASSETS</b>			
Segment assets	<u>195,220,994</u>	<u>418,491</u>	195,639,485
Unallocated corporate assets			<u>72,654,542</u>
Total assets			<u>268,294,027</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>191,474,275</u>	<u>31,200</u>	191,505,475
Unallocated corporate liabilities			<u>7,514,753</u>
Total liabilities			<u>199,020,228</u>
<b>OTHER INFORMATION</b>			
Additions to plant and equipment	1,135,929	–	1,135,929
Depreciation of plant and equipment	1,076,183	–	1,076,183
Additions to intangible assets	348,900	–	348,900
Amortisation of intangible assets	<u>69,780</u>	<u>–</u>	<u>69,780</u>

**For the period ended 31 August 2010**

	<b>Securities and futures Broking HK\$</b>	<b>Placing and underwriting HK\$</b>	<b>Total HK\$</b>
<b>REVENUE</b>			
Segment revenue	<u>13,971,775</u>	<u>8,157,040</u>	<u>22,128,815</u>
<b>RESULTS</b>			
Segment results	<u>7,094,976</u>	<u>7,655,690</u>	14,750,666
Gain from investments			(250,420)
Other interest income			101,787
Other income			70,135
Unallocated other operating expenses			<u>(3,871,365)</u>
Profit before taxation			10,800,803
Taxation			<u>(1,878,173)</u>
Profit for the period			<u>8,922,630</u>

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**APPENDIX I**

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**ACCOUNTANTS' REPORT**

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	<b>Securities and futures Broking HK\$</b>	<b>Placing and underwriting HK\$</b>	<b>Total HK\$</b>
<b>ASSETS</b>			
Segment assets	<u>161,825,191</u>	<u>–</u>	161,825,191
Unallocated corporate assets			<u>81,053,122</u>
Total assets			<u>242,878,313</u>
<b>LIABILITIES</b>			
Segment liabilities	<u>155,390,770</u>	<u>31,200</u>	155,421,970
Unallocated corporate liabilities			<u>9,315,494</u>
Total liabilities			<u>164,737,464</u>
<b>OTHER INFORMATION</b>			
Additions to plant and equipment	299,588	–	299,588
Depreciation of plant and equipment	377,731	–	377,731
Amortisation of intangible assets	<u>29,075</u>	<u>–</u>	<u>29,075</u>

**6. Turnover**

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Commission and brokerage fees from securities dealing on The Stock Exchange of Hong Kong Limited	15,442,656	29,941,974	13,567,071	10,127,250
Commission and brokerage fees on dealing in futures contracts	–	1,317,406	–	668,040
Placing and underwriting commission	262,781	32,288,270	12,701,250	8,157,040
Clearing and settlement fee	4,479,671	8,219,488	3,906,995	2,405,122
Handling service and dividend collection fees	375,288	457,195	209,363	173,560
Interest income from				
– authorised financial institutions	177,934	143,105	47,806	101,723
– clients	331,071	953,322	223,598	597,803
– others	21	5	1	64
	<u>21,069,422</u>	<u>73,320,765</u>	<u>30,656,084</u>	<u>22,230,602</u>

**7. Net other (loss) income**

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Gain on trading of financial assets at fair value through profit or loss	676,224	639,608	356,679	49,256
Loss on trading in futures contracts	–	(3,860)	–	(26)
Dividend income	–	9,758	9,758	–
Net change in fair value of financial assets at fair value through profit or loss	(2,467,065)	1,116,721	65,773	(299,650)
Other income	<u>7,018</u>	<u>93,467</u>	<u>1</u>	<u>70,135</u>
	<u>(1,783,823)</u>	<u>1,855,694</u>	<u>432,211</u>	<u>(180,285)</u>

**8. Finance costs**

	At 31 March		At 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Interest on:				
– Bank loans for IPO financing	–	173,339	27,945	–
– Other bank loans and overdraft	60	11,197	–	–
	<u>60</u>	<u>184,536</u>	<u>27,945</u>	<u>–</u>

**9. Profit before taxation**

	At 31 March		At 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Profit before taxation has been arrived				
at after charging:				
Staff costs ( <i>note 10</i> )	2,596,378	3,678,234	1,202,683	1,521,422
Auditors' remuneration	63,000	50,000	–	–
Depreciation of plant and equipment	1,029,680	1,076,183	372,907	377,731
Amortisation of intangible assets	–	69,780	–	29,075
Operating lease payments in respect of:				
Rented premises	2,057,514	2,896,992	1,183,908	1,223,549
Equipment	14,856	8,666	6,190	–
	<u>2,596,378</u>	<u>3,678,234</u>	<u>1,202,683</u>	<u>1,521,422</u>

**10. Staff costs (including directors' remuneration)**

	At 31 March		At 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Salaries and allowances	2,513,498	3,561,694	1,157,300	1,465,334
Defined contribution retirement benefit scheme contributions	82,880	116,540	45,383	56,088
	<u>2,596,378</u>	<u>3,678,234</u>	<u>1,202,683</u>	<u>1,521,422</u>

## 11. Directors' remuneration and senior management's emoluments

## (a) Directors' remunerations

The remunerations paid or payable to each of the directors for the Group during the Track Record Period were as follows:

## Year ended 31 March 2009

	Fees HK\$	Salaries, allowances and benefit in kind HK\$	Discretionary bonuses HK\$	Defined contribution retirement benefit scheme contributions HK\$	Total HK\$
<b>Executive directors</b>					
Kwok Kin Chung	–	–	–	–	–
Lau Ka Lung Ali	–	828,458	–	11,700	840,158
Lau Kin Hon	–	–	–	–	–
To Hang Ming (note 1)	–	–	–	–	–
Yu Linda	–	360,517	–	11,000	371,517
<b>Independent non-executive directors</b>			–		
Au Yeung Tai Hong Rorce	–	–	–	–	–
Choy Wing Man	–	–	–	–	–
Chee Kwok Wing Waymond	–	–	–	–	–
	<u>–</u>	<u>1,188,975</u>	<u>–</u>	<u>22,700</u>	<u>1,211,675</u>

## Year ended 31 March 2010

	Fees HK\$	Salaries, allowances and benefit in kind HK\$	Discretionary bonuses HK\$	Defined contribution retirement benefit scheme contributions HK\$	Total HK\$
<b>Executive directors</b>					
Kwok Kin Chung	–	–	–	–	–
Lau Ka Lung Ali	–	316,500	63,500	12,000	392,000
Lau Kin Hon	–	–	–	–	–
To Hang Ming (note 1)	–	–	–	–	–
Yu Linda	–	357,260	88,000	11,533	456,793
<b>Independent non-executive directors</b>					
Au Yeung Tai Hong Rorce	–	–	–	–	–
Choy Wing Man	–	–	–	–	–
Chee Kwok Wing Waymond	–	–	–	–	–
	<u>–</u>	<u>673,760</u>	<u>151,500</u>	<u>23,533</u>	<u>848,793</u>

## Period ended 31 August 2009 (unaudited)

	Fees <i>HK\$</i>	Salaries, allowances and benefit in kind <i>HK\$</i>	Discretionary bonuses <i>HK\$</i>	Defined contribution retirement benefit scheme contributions <i>HK\$</i>	Total <i>HK\$</i>
<b>Executive directors</b>					
Kwok Kin Chung	–	–	–	–	–
Lau Ka Lung Ali	–	133,500	–	5,000	138,500
Lau Kin Hon	–	–	–	–	–
To Hang Ming ( <i>note 1</i> )	–	–	–	–	–
Yu Linda	–	100,000	–	5,000	105,000
<b>Independent non-executive directors</b>					
Au Yeung Tai Hong Rorce	–	–	–	–	–
Choy Wing Man	–	–	–	–	–
Chee Kwok Wing Waymond	–	–	–	–	–
	<u>–</u>	<u>233,500</u>	<u>–</u>	<u>10,000</u>	<u>243,500</u>

## Period ended 31 August 2010

	Fees <i>HK\$</i>	Salaries, allowances and benefit in kind <i>HK\$</i>	Discretionary bonuses <i>HK\$</i>	Defined contribution retirement benefit scheme contributions <i>HK\$</i>	Total <i>HK\$</i>
<b>Executive directors</b>					
Kwok Kin Chung	–	76,205	–	2,460	78,665
Lau Ka Lung Ali	–	157,000	–	5,000	162,000
Lau Kin Hon	–	–	–	–	–
To Hang Ming ( <i>note 1</i> )	–	–	–	–	–
Yu Linda	–	200,000	–	5,000	205,000
<b>Independent non-executive directors</b>					
Au Yeung Tai Hong Rorce	–	–	–	–	–
Choy Wing Man	–	–	–	–	–
Chee Kwok Wing Waymond	–	–	–	–	–
	<u>–</u>	<u>433,205</u>	<u>–</u>	<u>12,460</u>	<u>445,665</u>

*note 1:* Mr. To Hang Ming appointed as executive Director on 18 February 2011 and resigned with effect from 21 February 2011.

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.

**(b) Five highest paid individuals**

The five highest paid individuals of the Group for the Track Record Period included two, two, one and two directors for the years ended 31 March 2009 and 2010 and five months ended 31 August 2009 and 2010 whose emoluments are disclosed in note 11(a). The remuneration of the remaining individuals which fell within the band of Nil – HK\$1 million for the Track Record Period are as follows:

	At 31 March		At 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Salaries, allowances and benefit in kind	849,654	952,928	631,350	379,766
Discretionary bonuses	–	476,500	–	–
Defined contribution retirement benefit scheme contributions	31,720	35,450	19,650	13,595
	<u>881,374</u>	<u>1,464,878</u>	<u>651,000</u>	<u>393,361</u>

During the Track Record Period, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group or as compensation for loss of office.

**12. Income tax expenses**

	At 31 March		At 31 August	
	2009	2010	2009	2010
	HK\$	HK\$	HK\$	HK\$
			(unaudited)	
Hong Kong profits tax				
– current year	609,298	7,562,044	3,507,250	1,894,064
Deferred tax				
– current year	<u>65,534</u>	<u>47,338</u>	<u>14,648</u>	<u>(15,891)</u>
	<u>674,832</u>	<u>7,609,382</u>	<u>3,521,898</u>	<u>1,878,173</u>

The tax expenses for the year/period can be reconciled to the profit before taxation per the combined statements of comprehensive income as follows:

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Profit before taxation	<u>4,113,807</u>	<u>46,267,756</u>	<u>21,401,746</u>	<u>10,800,803</u>
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	678,778	7,634,179	3,531,288	1,782,132
Tax effect of expenses not deductible for tax purpose	2,047	425	–	112,825
Tax effect of income not taxable for tax purpose	(29,359)	(25,222)	(9,390)	(16,784)
Tax effect of temporary difference not recognised	34,707	–	–	–
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	<u>(11,341)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax for the year/period	<u>674,832</u>	<u>7,609,382</u>	<u>3,521,898</u>	<u>1,878,173</u>

### **13. Dividends**

No dividend has been paid or declared by the Company since its incorporation on 27 August 2010.

The dividends during the Track Record Period represented those declared by Cheong Lee to its then shareholders prior to the Reorganisation.

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
2010 First quarter, paid – HK\$10 per share (2009: HK\$nil)	–	2,500,000	2,500,000	–
2010 Interim, paid – HK\$16.68 per share (2009: HK\$5.68)	852,000	5,004,000	–	–
2010 Third quarter, paid – HK\$16.68 per share (2009: HK\$nil)	–	5,004,000	–	–
2009 Final, paid – HK\$10 per share (2009: 2008 Final, HK\$nil)	–	2,500,000	2,500,000	–
	<u>852,000</u>	<u>15,008,000</u>	<u>5,000,000</u>	<u>–</u>

#### **14. Earnings per share**

No earning per share information is presented as its inclusion for the purpose of this report, is not meaningful due to the Reorganisation and the preparation of the results for the Track Record Period on a combined basis as described in note 1 above.

**15. Plant and equipment**

	<b>Leasehold improvement <i>HK\$</i></b>	<b>Furniture &amp; equipment <i>HK\$</i></b>	<b>Computer equipment <i>HK\$</i></b>	<b>Total <i>HK\$</i></b>
<b>COST</b>				
At 1 April 2008	1,194,431	242,167	1,534,568	2,971,166
Additions	<u>83,801</u>	<u>25,678</u>	<u>1,127,907</u>	<u>1,237,386</u>
At 31 March 2009	1,278,232	267,845	2,662,475	4,208,552
Additions	401,000	53,052	681,877	1,135,929
Disposals	<u>(649,831)</u>	<u>–</u>	<u>–</u>	<u>(649,831)</u>
At 31 March 2010	1,029,401	320,897	3,344,352	4,694,650
Additions	–	19,338	280,250	299,588
Disposals	<u>–</u>	<u>(13,780)</u>	<u>–</u>	<u>(13,780)</u>
At 31 August 2010	<u>1,029,401</u>	<u>326,455</u>	<u>3,624,602</u>	<u>4,980,458</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 April 2008	597,215	48,433	314,914	960,562
Charge for the year	<u>443,616</u>	<u>53,569</u>	<u>532,495</u>	<u>1,029,680</u>
At 31 March 2009	1,040,831	102,002	847,409	1,990,242
Charge for the year	343,133	64,180	668,870	1,076,183
Written back upon disposal	<u>(649,831)</u>	<u>–</u>	<u>–</u>	<u>(649,831)</u>
At 31 March 2010	734,133	166,182	1,516,279	2,416,594
Charge for the period	67,333	26,944	283,454	377,731
Written back upon disposal	<u>–</u>	<u>(8,727)</u>	<u>–</u>	<u>(8,727)</u>
At 31 August 2010	<u>801,466</u>	<u>184,399</u>	<u>1,799,733</u>	<u>2,785,598</u>
<b>CARRYING VALUES</b>				
At 31 March 2009	<u>237,401</u>	<u>165,843</u>	<u>1,815,066</u>	<u>2,218,310</u>
At 31 March 2010	<u>295,268</u>	<u>154,715</u>	<u>1,828,073</u>	<u>2,278,056</u>
At 31 August 2010	<u>227,935</u>	<u>142,056</u>	<u>1,824,869</u>	<u>2,194,860</u>

## 16. Intangible assets

	Futures trading right HK\$
<b>COST</b>	
At 1 April 2008 and 31 March 2009	–
Addition	<u>348,900</u>
At 31 March 2010 and 31 August 2010	<u>348,900</u>
<b>AMORTISATION</b>	
At 1 April 2008 and 31 March 2009	–
Charge for the year	<u>69,780</u>
At 31 March 2010	69,780
Charge for the period	<u>29,075</u>
At 31 August 2010	<u>98,855</u>
<b>NET BOOK VALUES</b>	
At 31 March 2009	<u><u>–</u></u>
At 31 March 2010	<u><u>279,120</u></u>
At 31 August 2010	<u><u>250,045</u></u>

## 17. Other assets

	At 31 March		At
	2009	2010	31 August
	HK\$	HK\$	2010
			HK\$
Admission fee paid to Hong Kong Securities Clearing Company Limited	50,000	50,000	50,000
Stamp duty deposit with The Stock Exchange of Hong Kong Limited	5,000	75,000	75,000
Contributions in cash to a guarantee fund with Hong Kong Securities Clearing Company Limited	50,000	50,000	50,000
Compensation fund with The Stock Exchange of Hong Kong Limited	50,000	50,000	50,000
Fidelity fund with The Stock Exchange of Hong Kong Limited	50,000	50,000	50,000
Deposit with HKFE Clearing Corporation Limited in contribution to the reserve fund	—	1,500,530	1,501,110
	<u>205,000</u>	<u>1,775,530</u>	<u>1,776,110</u>

**18. Available-for-sale financial assets**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Unlisted investment fund in Hong Kong, at fair value	<u>–</u>	<u>9,723,483</u>	<u>9,667,903</u>

The balance represents an investment in Galaxy China Special Situations Fund. It is measured at fair value and is classified as Level 2 fair value measurement.

**19. Trade receivables**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade receivables from the business of dealing in futures contracts:			
Clearing houses	–	4,038,570	185,626
Trade receivables from the business of dealing in securities:			
Cash clients	5,859,087	1,170,900	5,828,867
Clearing houses	–	43,293,075	1,353,341
Trade receivables from placing and underwriting	<u>–</u>	<u>418,491</u>	<u>–</u>
	<u>5,859,087</u>	<u>48,921,036</u>	<u>7,367,834</u>

The settlement terms of trade receivables arising from the business of dealing in securities are two days after the trade date, and trade receivables arising from the business of dealing in futures contracts are one day after the trade date.

The aged analysis of the trade receivables are as follows:

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Less than 1 month past due	5,175,576	48,880,014	3,238,663
1 to 3 months past due	148,550	13	1,174,667
Over 3 months but less than			
1 year past due	534,961	7,437	2,918,042
Over 1 year past due	—	33,572	36,462
	<u>5,859,087</u>	<u>48,921,036</u>	<u>7,367,834</u>

The Directors consider that the carrying amounts of trade receivables approximate their fair values.

The group held the stock on behalf of those clients who overdue payment more than one month are of HK\$5,959,071, HK\$164,941,190 and HK\$26,346,883 as at 31 March 2009, 2010 and 31 August 2010 respectively.

**20. Other receivables, deposits and prepayments**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other receivables	77,990	895	—
Rental and other deposits	750,147	965,988	713,029
Prepayments	279,674	245,989	2,445,561
	<u>1,107,811</u>	<u>1,212,872</u>	<u>3,158,590</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default.

**21. Financial assets at fair value through profit or loss**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<b>2010</b>
			<i>HK\$</i>
Equity securities listed in Hong Kong, at fair value	<u>1,261,138</u>	<u>1,930,400</u>	<u>1,631,152</u>

**22. Bank balances and cash**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<b>2010</b>
			<i>HK\$</i>
Bank balances			
– trust accounts	53,237,734	142,385,744	150,236,342
– general accounts and cash	<u>20,930,604</u>	<u>59,787,786</u>	<u>66,595,477</u>
	<u>74,168,338</u>	<u>202,173,530</u>	<u>216,831,819</u>

The Group maintains segregated trust accounts with licensed banks to hold clients' monies arising from its normal course of business. The Group has classifies the clients' monies as cash held on behalf of customers under the current assets section of the statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

The general accounts and cash comprise cash held by the Group and bank deposits bearing interest at commercial rates with original maturity of three months or less. The fair values of these assets at the end of the reporting period approximate their carrying amounts.

**23. Trade payables**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade payables from the business of dealing in futures contracts:			
Margin clients	–	6,559,834	2,531,543
Trade payables from the business of dealing in securities:			
Cash clients	54,165,982	182,431,995	149,494,019
Clearing houses	<u>3,482,486</u>	<u>–</u>	<u>–</u>
	<u><b>57,648,468</b></u>	<u><b>188,991,829</b></u>	<u><b>152,025,562</b></u>

The settlement terms of trade payables arising from the business of dealing in securities are two days after trade date, and trade payables arising from the business of dealing in futures contracts are one day after trade date. No aged analysis is disclosed as in the opinion of the directors; the aged analysis does not give additional value in view of the nature of this business.

Included in trade payables to cash clients attributable to dealing in securities and futures transaction is an amount of HK\$53,237,734, HK\$142,385,744 and HK\$150,236,342 representing these clients' undrawn monies/excess deposits placed with the Group. The balances are repayable on demand as at 31 March 2009, 31 March 2010 and 31 August 2010 respectively.

The directors consider that the carrying amounts of trade payables approximate their fair values.

**24. Other payables and accruals**

	At 31 March		At 31 August
	2009	2010	2010
	HK\$	HK\$	HK\$
Accrued charges	523,710	839,690	962,247
Stamp duty, trading levy and trading fee payables	2,120,899	1,774,834	2,550,967
Other payables	—	1,500	61,810
	<u>2,644,609</u>	<u>2,616,024</u>	<u>3,575,024</u>

All accrued expenses and other payables are expected to be settled or recognised as income within one year.

**25. Deferred tax liabilities**

The following is the major deferred tax liabilities recognised by the Group and movements thereon during the Track Record Period:

	Depreciation allowance in excess of the related depreciation HK\$
At 1 April 2008	204,171
Charge to statement of comprehensive income	<u>59,829</u>
At 31 March 2009	264,000
Charge to statement of comprehensive income	<u>47,338</u>
As at 31 March 2010	311,338
Credit to statement of comprehensive income	<u>(15,891)</u>
As at 31 August 2010	<u>295,447</u>

**26. Share capital**

Share capital in the combined statements of financial position as at 31 March 2009, 2010 and 31 August 2010 represents the aggregate amount of paid-up capital of CL Group (Holdings) Limited, CL Group (BVI) Limited, and Cheong Lee Securities 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 27 August 2010 with an authorised share capital of HK\$390,000 divided into 39,000,000 ordinary shares of HK\$0.01 each. The Company issued 1 ordinary share for a total consideration of HK\$0.01 on 27 August 2010. Further details of the changes in authorised and issued share capital of the Company after 31 August 2010 are set out in the section headed “Changes in the authorised and issued share capital of the Company” in Appendix V to the Prospectus.

For the purpose of this report, share capital of the Group as at 31 March 2009, 2010 and five months ended 31 August 2010 represented the issued share capital of the companies at the end of each reporting period are as follows:

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
The Company	–	–	7,500,000
Cheong Lee	20,000,000	40,000,000	–
	<u>20,000,000</u>	<u>40,000,000</u>	<u>7,500,000</u>

On 22 February 2011, the Company acquired 400,000 ordinary shares of HK\$100 each in Cheong Lee, being its entire issued share capital, from Ms. Au. In consideration thereof, an aggregate of 749,999,999 new ordinary shares of HK\$0.01 each of the Company, credited as fully paid, were evenly allotted and issued to Zillion Profit Limited which is wholly owned by Ms. Au.

**27. Reserves**

The movements in the Group's reserves for the Track Record Period are presented in the combined statements of changes in equity.

**28. Information about the statement of financial position of the Company**

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Assets			
Amount due from Cheong Lee BVI	–	–	39,999,992
Investment in Cheong Lee BVI	–	–	8
	<u>–</u>	<u>–</u>	<u>8</u>
Total Assets	<u>–</u>	<u>–</u>	<u>40,000,000</u>
Capital and reserve			
Share capital	–	–	7,500,000
Merger reserve	–	–	32,500,000
	<u>–</u>	<u>–</u>	<u>40,000,000</u>

The Company issued aggregate of 749,999,999 shares to Zillion Profit Limited, which is wholly owned by Ms. Au, as consideration to acquire the entire equity interests in Cheong Lee. Further details of the changes amounts due from Cheong Lee BVI, share capital and merger reserve of the Company are set out in the section headed “Corporate reorganisation” in Appendix V to the Prospectus.

The Company incorporated at 27 August 2010, One share of HK\$0.01 has been issued and fully paid up.

**29. Retirement benefit plans**

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.

**30. Banking facilities**

At the end of each reporting period, the Group has the follow overdraft facilities:

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Overdraft facilities	<u>7,000,000</u>	<u>—</u>	<u>10,000,000</u>

These facilities are secured by the bank deposits of the sole shareholder.

The Group and the Company did not have any assets pledged to banks for banking facilities.

**31. Operating lease commitment*****The Group as lessee***

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>At 31 March</b>		<b>At</b>
	<b>2009</b>	<b>2010</b>	<b>31 August</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	1,848,168	2,435,808	2,150,428
In the second to fifth years inclusive	<u>3,080,280</u>	<u>1,167,264</u>	<u>437,724</u>
	<u>4,928,448</u>	<u>3,603,072</u>	<u>2,588,152</u>

***The Company as lessee***

The Company has no significant operating lease commitments at 31 August 2010.

**32. Capital commitments**

The Group and the Company had no significant capital commitments at 31 August 2010.

**33. Contingent liabilities**

The Group and the Company had no significant contingent liabilities at the end of each of the reporting period.

**34. Related parties transactions**

- i.* In addition to the transactions forming part of the Reorganisation detailed in Appendix V to the Prospectus, the Group had the following material transactions with related parties during the Track Record Period:

		At 31 March		At 31 August	
		2009	2010	2009	2010
		HK\$	HK\$	HK\$	HK\$
		(unaudited)			
Commission and brokerage					
income from securities					
trading:					
– Au Suet Ming Clarea	Sole shareholder	23,809	62,766	28,105	11,275
– Cheong Lee Capital Limited	Owned by a shareholder	6,071,232	3,803,542	2,538,655	1,538,331
– China Merit International Holdings Limited	Owned by a shareholder	2,810,143	2,382,482	2,343,330	38,380
– Au Yik Fei	Shareholder's connected party	2,437	31,214	20,560	5,459
– Chinacorp International Consultants Limited	Shareholder's connected party	3,480,976	4,837,587	2,255,940	1,022,087
– Kitty Au Nim Bing	Shareholder's connected party	–	12,091	5,310	317
– Au Yuk Kit	Shareholder's connected party	–	8,641	2,708	1,719
– Chee Kwok Wing Waymand	Director	–	–	–	248
– Lam Wing Hi	Director	50	50	–	–
– To Hang Ming	Director	–	43,870	–	21,904
– Yu Linda	Director	–	150	50	–
– Ang Wing Fung	Director's spouse	–	50	–	–
– Li Wai Kwan	Director's spouse	105,461	40,286	40,286	–
– Hilcrest Management Limited	Owned by a Director	–	–	–	26,842
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Commission and brokerage					
income from futures					
contract trading:					
– China Merit International Holdings Limited	Owned by a shareholder	–	916	–	300
– To Hang Ming	Director	–	3,280	–	1,040
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

- ii.* Included in trade receivables and payables arising from the business of dealing in securities and futures contracts are amounts due from/(to) certain related parties, the net balance of which are as follows:

		At 31 March		At 31 August
		2009	2010	2010
		HK\$	HK\$	HK\$
Amount due from/(to)				
related parties				
– Au Suet Ming Clarea	Sole shareholder	(317,889)	(6,354,704)	(8,055,606)
– Cheong Lee Capital Limited	Owned by a shareholder	(13,560,351)	(18,184,458)	(27,918,699)
– China Merit International Holdings Limited	Owned by a shareholder	(12,703,997)	(3,543,442)	(16,545,459)
– Au Yik Fei	Shareholder's connected party	48,211	(197,584)	(142,299)
– Au Yuk Kit	Shareholder's connected party	–	(385,650)	(446,146)
– Chinacorp International Consultants Limited	Shareholder's connected party	(4,972,880)	(5,232,493)	(7,224,322)
– Kitty Au Nim Bing	Shareholder's connected party	–	(55,943)	(48,157)
– Chee Kwok Wing Waymond	Director	–	–	(333)
– To Hang Ming	Director	–	(1,793,232)	(475,048)
– Li Wai Kwan	Director's spouse	(162)	–	–
– Hilcrest Management Limited	Owned by a Director	–	–	(1,048,958)

The fair values of the balances included in the accounts at the end of the reporting period approximate the corresponding carrying amounts.

The settlement terms of trade receivables/payables including transactions with related parties arising from the business of dealing in securities are T+2; and trade receivables/payables arising from the business of dealing in futures are T+1. The settlements terms are same as those with third parties. The related parties custodian, cash placed with the Group in it trust account were included in trade payables and would be settled upon request or the related party ceased to trade with the Group.

- iii.* Li Wai Kwan, Lam Wing Hi and Ang Wing Fung ceased to trade with the Company on 1 December 2009, 12 July 2010 and 18 October 2010 respectively. As at the Latest Practicable Date, the other related parties were continue to trade with the Group.
- iv.* In the Directors' opinion, all of the related party transactions were conducted on normal commercial terms and in the ordinary and usual courses of the Group's business.

**v. Compensation of key management personnel**

The remuneration of Directors and other members of key management during the Track Record Period were as follows:

	<b>At 31 March</b>		<b>At 31 August</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Short-term benefits	1,188,975	825,260	233,500	433,205
Post-employment benefits	22,700	23,533	10,000	12,460
	<u>1,211,675</u>	<u>848,793</u>	<u>243,500</u>	<u>445,665</u>

The remuneration of Directors and key executives is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

**III. DIRECTORS' REMUNERATION**

Saved as disclosed in note 11 of Section II above, no other remuneration has been paid or is payable in respect of the Track Record Period to the directors of the Company.

**IV. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31 August 2010:

**(a) Reorganisation**

The Company was incorporated in Cayman Islands on 27 August 2010. The companies comprising the Group underwent and completed a reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange on 8 March 2011. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

**(b) Dividend**

A dividend of HK\$90 per share amounting to HK\$36,000,000 was declared and paid by Cheong Lee to its sole shareholder on 6 October 2010.

**(c) Investment in financial assets at fair value through profit or loss**

The Group had acquired certain financial assets at fair value through profit or loss in a consideration of approximately HK\$8.9 million in aggregate up to the date of the Prospectus.

**(d) Pre-IPO Share Option Schemes**

Pursuant to a shareholder resolution passed on 22 February 2011, the Company has conditionally adopted Pre-IPO Share Option Scheme. The summary of terms of the Pre-IPO Share Option Scheme is set out in the section headed “Pre-IPO Share Option Scheme” in Appendix V to the Prospectus.

**V. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 August 2010.

Yours faithfully,

**HLM & Co.**

*Certified Public Accountants*

Hong Kong

*The following unaudited pro forma financial information prepared in accordance with Rule 7.31(1) and paragraph 21 of Appendix 1A of the GEM Listing Rules is for illustrative purpose only, and is set out herein to provide the prospective investors with further financial information about how the proposed listing might have affected the net tangible assets of the Group after the completion of the Placing as if the Placing had taken place on 31 August 2010.*

*The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position.*

*Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position.*

*The information set forth in this Appendix does not form part of the accountants' report prepared by HLM & Co., Certified Public Accountants, Hong Kong, the reporting accountants of the Group, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.*

**(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The unaudited pro forma adjusted net tangible assets of the Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Placing as if it had taken place on 31 August 2010. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma adjusted net tangible assets of the Group as at 31 August 2010 is based on the audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 as shown in the accountants' report set out in Appendix I to this prospectus and the adjustments described below.

	<b>Audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 HK\$ (Note 1)</b>	<b>Estimated net proceeds from the Placing HK\$ (Note 2)</b>	<b>Unaudited pro forma adjusted combined net tangible assets HK\$</b>	<b>Unaudited pro forma adjusted combined net tangible assets per Share HK cents (Note 3)</b>
Based on the Placing Price of HK\$0.480 per Placing Share	<u>77,890,804</u>	<u>104,689,000</u>	<u>182,579,804</u>	<u>18.26</u>
Based on the Placing Price of HK\$0.495 per Placing Share	<u>77,890,804</u>	<u>108,326,500</u>	<u>186,217,304</u>	<u>18.62</u>

*Notes:*

- (1) The audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2010 has been extracted without adjustment from the accountants' report set out in Appendix I to this prospectus.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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- (2) Estimated net proceeds from the Placing of shares.

	Based on indicative Placing Price of HK\$0.48 per Placing Share HK\$	Based on indicative Placing Price of HK\$0.495 per Placing Share HK\$
Gross proceeds from the Placing of shares	120,000,000	123,750,000
Underwriting fees and other expenses associated with the Placing of shares	(15,311,000)	(15,423,500)
	<u>104,689,000</u>	<u>108,326,500</u>

- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Placing. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Schemes, or any Shares which may be allotted and issued or repurchased by the Group pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus or otherwise.
- (4) Pursuant to the resolutions passed at the board of directors' meetings of Cheong Lee on 6 October 2010, dividends of HK\$36,000,000 were declared and paid to Ms. Au. As the declaration and payment of dividends were subsequent to the Track Record Period, the dividend has not been recognised as liabilities in the combined statement of financial position of the Group as at 31 August 2010. Subsequent payment of the dividends will reduce the Group's net tangible asset position by HK\$36,000,000. The unaudited proforma adjusted combined net assets per Share, in turn, will be reduced by HK3.6 cents.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### B.      REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report from HLM & Co., Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

恒健會計師行  
**HLM & Co.**  
Certified Public Accountants

Room 305, Arion Commercial Centre  
2-12 Queen's Road West, Hong Kong.  
香港皇后大道西2-12號聯發商業中心305室  
Tel 電話: (852) 3103 6980  
Fax 傳真: (852) 3104 0170  
E-mail 電郵: hlm@hlm.com.hk

28 February 2011

The Directors  
**CL Group (Holdings) Limited**

Dear sirs,

#### **Report on the unaudited pro forma financial information to the directors of CL Group (Holdings) Limited (the "Company")**

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Company and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the proposed listing of the Company's shares might have affected the financial information presented, for inclusion in section A of Appendix II to the prospectus dated 28 February 2011 (the "Prospectus") issued by the Company. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on section A of Appendix II to the Prospectus.

#### **Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

#### **Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 August 2010 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of proceeds" set out in the Section headed "Future Plans and Prospects" in the Prospectus.

### OPINION

In our opinion:

- (a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

**HLM & Co.**

*Certified Public Accountants*

Hong Kong

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 January 2011 of the properties leased by the Group in Hong Kong.*

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心3111-18室

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

28 February 2011

The Directors

**CL Group (Holdings) Limited**

Room 1106, 11th Floor

Mass Mutual Tower

38 Gloucester Road

Wanchai

Hong Kong

Dear Sirs,

### **INSTRUCTIONS**

We refer to the instructions from CL Group (Holdings) Limited (the “Company”) for us to value the properties leased by the Company and/or its subsidiaries (together referred to as the “Group”) located in Hong Kong. We confirm that we have conducted inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 January 2011 (the “date of valuation”).

### **BASIS OF VALUATION**

Our valuations of the concerned properties have been based on the Market Value, which 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”.

**VALUATION METHODOLOGY**

In valuing the properties leased by the Group, we are of the opinion that they have no commercial value either because of their non-assignability in the market or there are prohibitions against assignment and/or subletting contained in the tenancy agreements or the lack of marketable and substantial profit rents.

**TITLE INVESTIGATION**

We have not searched the titles of the properties and have not scrutinised the original title documents to verify ownership or to ascertain the existence of any amendments, which do not appear on the copies handed to us. However, we have been provided with a copy of the tenancy agreements of the properties leased by the Group. All documents have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

**VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on the Group's confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and is in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

#### **REMARKS**

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfer.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,

For and on behalf of

**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**

*BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),  
MHKIS, MCI Arb, AFA, SIFM, FCIM, MASCE, MIET,  
MIEEE, MASME, MIIIE  
Managing Director*

**Joannau W.F. Chan**

*BSc., MSc., MRICS, MHKIS, RPS(GP)  
Senior Director*

#### *Notes:*

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong.

## SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 January 2011 HK\$
1.	Rooms 1104-1106 on 11th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong	No Commercial Value
2.	Rooms 905-906 on 9th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong	No Commercial Value
		<hr/> <b>Total:</b> <u>Nil</u>

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2011 HK\$
1.	Rooms 1104-1106 on 11th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong	<p>The property comprises two office units on the 11th Floor of a 27-storey office building which was completed in 1985.</p> <p>The total gross floor area ("GFA") of the property is approximately 5,525 sq.ft. (or about 513.3 sq.m.).</p> <p>Pursuant to two tenancy agreements entered into between an independent third-party landlord and Cheong Lee Securities Limited ("Cheong Lee") dated 27 April 2009 and 20 August 2009, the property is leased to Cheong Lee for office use at a total monthly rent of HK\$202,984 with the latter term expiring on 30 November 2011.</p>	The property is occupied by the Group for office purpose.	No Commercial Value

*Note:*

Pursuant to the aforesaid tenancy agreements, the tenant of the property is Cheong Lee, a wholly-owned subsidiary of the Company. The details of the tenancy agreements are summarised as follows:

No.	Unit	Date of Agreement	Term	GFA in sq.ft.	Monthly Rent HK\$
1.	1104	27 April 2009	1 April 2009 – 31 March 2011	1,502	57,076
2.	1105-06	20 August 2009	1 December 2009 – 30 November 2011	4,023	145,908
Total:				<u>5,525</u>	<u>202,984</u>

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2011 HK\$
2.	Rooms 905-906 on 9th Floor, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong	<p>The property comprises an office unit on the 9th Floor of a 27-storey office building which was completed in 1985.</p> <p>The gross floor area of the property is approximately 3,955 sq.ft. (or about 367.4 sq.m.).</p> <p>Pursuant to an offer letter from an independent third-party landlord and accepted by Cheong Lee Securities Limited ("Cheong Lee") on 9 February 2011, the property is leased to Cheong Lee for office use for a term of 2 years commencing on 14 February 2011 and expiring on 13 February 2013 (with rent free periods from 14 February 2011 to 13 March 2011 and from 1 April 2012 to 30 April 2012) at a monthly rent of HK\$174,020 exclusive of Government rates, services charges and other outgoings.</p>	The property is occupied by the Group for office use.	No Commercial Value

*Note:* –

Pursuant to the aforesaid offer letter, the tenant of the property is Cheong Lee, a wholly-owned subsidiary of the Company.

*Set out below is a summary of certain provisions of the Memorandum and Articles of the Company and of certain relevant aspects of Cayman Companies Law.*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 August, 2010 under the Companies Law. The Memorandum and the Articles comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted, and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 22 February 2011. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### ***(i) Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued 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). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(ii) Power to dispose of the assets of the Company or any subsidiary***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

***(iii) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

***(iv) Loans and provision of security for loans to Directors***

There are provisions in the Articles prohibiting the making of loans to Directors.

***(v) Disclosure of interests in contracts with the Company or any of its subsidiaries***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, 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 of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his 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;
- (ee) any contract or arrangement 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 shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

- (ff) 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 associates 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 accorded generally to the class of persons to which such scheme or fund relates.

**(vi) *Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(vii) Retirement, appointment and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) 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;
- (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.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

***(viii) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

***(ix) Proceedings of the Board***

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think 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 an additional or casting vote.

***(x) Register of Directors and Officers***

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

The 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) Special resolution majority required**

Pursuant to 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, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), 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 ninety-five per cent. (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 notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meeting shall be called by at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall 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 ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that 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 and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse 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 incentive scheme for employees 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 recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles 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.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) 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, 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (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 year period, 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 Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (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.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes 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**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 14 September, 2010.

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

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 without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, 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 the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person 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 persons than one are appointed to such office, the Court shall declare whether any act hereby 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. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix 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.

**A. FURTHER INFORMATION ABOUT THE COMPANY****1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 August 2010. The Company has established a principal place of business in Hong Kong at Room 1106, 11/F., Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 4 November 2010. Loong & Yeung of Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in the Cayman Islands, it operates subject to the Cayman Islands law and to its constitution, which comprises the Memorandum and the Articles. A summary of various provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

**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 was HK\$390,000 divided into 39,000,000 Shares of a par value of HK\$0.01 each.

On 27 August 2010, one fully paid Share was subscribed by Codan Trust Company (Cayman) Limited, the subscriber, and such share was transferred to Ms. Au for a consideration of HK\$0.01 on the same date. On 14 January 2011, such share was transferred to BVI Holding Company, a company incorporated in the BVI and wholly and beneficially owned by Ms. Au, at a consideration of HK\$0.01.

On 22 February 2011, the authorised share capital of the Company was increased from HK\$390,000 to HK\$50,000,000 by creation of additional 4,961,000,000 Shares which rank pari passu in all respects with the Shares then in issue.

On 22 February 2011, pursuant to a sale and purchase agreement, the Company allotted and issued 749,999,999 Shares, credited as fully paid, to BVI Holding Company in consideration of the transfer of the entire issued share capital of Cheong Lee from Ms. Au to Cheong Lee BVI. Immediately after the share transfer, the BVI Holding Company held an aggregate of 750,000,000 Shares, being the then entire issued share capital of the Company, and Cheong Lee became a wholly-owned subsidiary of Cheong Lee BVI.

Assuming the Placing becomes unconditional and immediately after the completion of the Placing, but taking no account of any Shares which may be issued under the Pre-IPO Share Option Scheme and the Share Option Scheme, the authorised share capital of the Company will be HK\$50,000,000 divided into 5,000,000,000 Shares and the issued share capital of the Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid, with 4,000,000,000 Shares remaining unissued.

Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of the sole Shareholder passed on 22 February 2011” in this Appendix and pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme, the Company does not have any present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in the paragraph headed “Written resolutions of the sole Shareholder passed on 22 February 2011”, there has been no alteration in the share capital of the Company since the date of its incorporation.

### **3. Written resolutions of the sole Shareholder passed on 22 February 2011**

On 22 February 2011, resolutions in writing were passed by the sole Shareholder pursuant to which, among other things:

- (a) the Company approved and adopted the Articles, the terms of which are summarised in Appendix IV to this prospectus;
- (b) conditional on (i) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus including any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, (ii) the agreement on the Placing Price, and (iii) the obligations of the Underwriter(s) under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:
  - (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares pursuant to the Placing to the investors; and

- (ii) the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed “Pre-IPO Share Option Scheme” in this Appendix, were approved and adopted, and the Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Pre-IPO Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Pre-IPO Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this Appendix, were approved and adopted and the Directors were authorised, 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 the Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and
- (iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any subscription rights attached to any warrants of the Company or any options which may be granted under the Pre-IPO Share Option Scheme, the Share Option Scheme or any other share option scheme of the Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing but excluding any Shares which may be issued under or pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
  - (1) the conclusion of the next annual general meeting of the Company; or

- (2) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (3) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting;
- (v) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing but excluding any Shares which may be issued under or pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
  - (1) the conclusion of the next annual general meeting of the Company; or
  - (2) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (3) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and

- (vi) the general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing but excluding any Shares which may be issued under or pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

#### **4. Corporate reorganisation**

In preparing for the Listing, the companies comprising the Group underwent the Reorganisation to rationalise the corporate structure of the Group and the Company became the holding company of the Group. The Reorganisation involved the following:

- (a) The Company was incorporated on 27 August 2010 in the Cayman Islands with Ms. Au being its sole Shareholder. At the time of its incorporation, 1 fully paid Share was issued to the subscriber who transferred the same Share at par value to Ms. Au on the same day.
- (b) Cheong Lee BVI was incorporated on 15 September 2010 in BVI as an intermediate holding company. On 14 October 2010, 1 share of US\$1.00, representing its entire issued share capital was issued and allotted to the Company.
- (c) BVI Holding Company was incorporated on 22 April 2010 in the BVI. On 4 June 2010, 1 share of US\$1.00, representing its entire issued share capital was issued and allotted to Ms. Au. On 14 January 2011, Ms. Au transferred one Share, representing the then entire issued share capital of the Company, to BVI Holding Company at a nominal consideration of HK\$0.01.
- (d) On 22 February 2011, Cheong Lee BVI acquired the entire issued share capital of Cheong Lee from Ms. Au. As consideration, the Company, at the direction of Ms. Au, issued and allotted 749,999,999 Shares to BVI Holding Company credited as fully paid.

## 5. Repurchase by the Company of its own shares

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own shares.

### (A) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

#### (i) *Shareholders' approval*

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions passed by the sole Shareholder on 22 February 2011, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to the Directors authorising them to exercise all powers for and on behalf of the Company to repurchase its Shares on GEM, or on any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing but excluding any Shares which may be issued under or pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme at any time and the Repurchase Mandate shall remain in effect until whichever the earliest of the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held or when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

#### (ii) *Source of Funds*

Any repurchase by the Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. The Company may not repurchase its own shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by the Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or out of the Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

*(iii) Connected parties*

The GEM Listing Rules prohibit the Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder or any of the subsidiaries of the Company or an associate of any of them and a connected person shall not knowingly sell Shares to the Company.

*(iv) Exercise of the Repurchase Mandate*

On the basis of 1,000,000,000 Shares in issue immediately after completion of the Placing but taking into no account of any Shares to be issued upon the exercise of any option which have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme, the Directors would be authorised under the Repurchase Mandate to repurchase up to 100,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

*(v) Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

*(vi) Funding of repurchases*

In repurchasing the Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

***(B) General***

None of the Directors or, and to the best of their knowledge, having made all reasonable enquiries, any associates (as defined in the GEM Listing Rules) of any Director, has any present intention to sell any Shares to the Company 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 GEM Listing Rules, the Articles and the applicable law and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interest, 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 as a result of any such increase.

Save as disclosed above, the Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the listing of the Shares pursuant to the Repurchase Mandate. At present, so far as is known to the Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that the Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person (as defined in the GEM Listing Rules) has notified the Company that he/she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS****Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this prospectus and are or may be material in relation to the business of the Company taken as a whole:

- (a) a deed of non-competition undertaking dated 25 February 2011 and executed by Ms. Au, BVI Holding Company, Mr. Kwok Kin Chung, Mr. Lau Ka Lung Ali, Mr. Lau Kin Hon and Ms. Yu in favour of the Company (for itself and on behalf of its subsidiaries);
- (b) a sale and purchase agreement dated 22 February 2011 entered into between Ms. Au, Cheong Lee BVI and the Company, pursuant to which Ms. Au transferred 400,000 shares in Cheong Lee, representing the entire issued share capital of Cheong Lee, to Cheong Lee BVI at a consideration to be satisfied by the issue and allotment of 749,999,999 Shares by the Company, at the direction of Ms. Au, to BVI Holding Company credited as fully paid;
- (c) an instrument of transfer dated 22 February 2011 entered into between Ms. Au and Cheong Lee BVI, pursuant to which Ms. Au transferred 400,000 shares in Cheong Lee, representing the entire issued share capital of Cheong Lee, to Cheong Lee BVI, the consideration of which is set out in (b) above;
- (d) bought and sold notes dated 22 February 2011 made between Ms. Au as transferor and Cheong Lee BVI as transferee for the transfer of 400,000 shares in Cheong Lee, the consideration of which is set out in (b) above;
- (e) the Underwriting Agreement, the principal terms of which are summarised in the paragraphs headed “Underwriting arrangements” under the section headed “Underwriters” of this prospectus; and
- (f) a deed of indemnity dated 28 February 2011 and executed by BVI Holding Company and its beneficial owner, namely Ms. Au, in favour of the Company (for itself and on behalf of its subsidiaries) containing indemnities referred to in the paragraph headed “Indemnities” in the section headed “Other information” of this Appendix.

**C. INTELLECTUAL PROPERTY RIGHTS OF THE GROUP****(a) Trade marks**

As at the Latest Practicable Date, the Group has applied for registration of the following trade marks with the relevant authorities in respect of the class of goods and services specified below:

Trade Marks	Class (Note 1)	Place of Registration	Name of Applicant	Application Number	Date of Application
<b>CheongLee</b>	36	Hong Kong	Cheong Lee	301789895	15 December 2010
<b>CheongLee</b> (Note 2)	36	Hong Kong	Cheong Lee	301789895	15 December 2010
 CL GROUP (HOLDINGS) LIMITED	36	Hong Kong	the Company	301827946	7 February 2011
 CL GROUP (HOLDINGS) LIMITED (Note 2)	36	Hong Kong	the Company	301827946	7 February 2011
	36	Hong Kong	the Company	301837431	18 February 2011
 (Note 2)	36	Hong Kong	the Company	301837431	18 February 2011

Note:

1. The relevant specification of goods and/or services of the above trade marks in class 36 include insurance; financial affairs, monetary affairs; real estate affairs.
2. Colour trade mark

**(b) Domain name**

As at the Latest Practicable Date, the following member of the Group has registered the following domain name:

Registrant	Domain Name	Registration Date	Expiry Date
Cheong Lee	cheongleesec.com.hk	30 July 2007	30 July 2011 (Note)

Note:

The Group intends to apply for renewal of the domain name upon expiry.

**D. INFORMATION ON THE SUBSIDIARIES OF THE GROUP****(i) Cheong Lee BVI**

Name	CL Group (BVI) Limited
Date of Incorporation	15 September 2010
Place of Incorporation	BVI
Authorised Capital	US\$50,000
Issued Capital	US\$1
Shareholder	the Company
Nature	Investment holding

**(ii) Cheong Lee**

Name	Cheong Lee Securities Limited
Date of Incorporation	10 November 2004
Place of Incorporation	Hong Kong
Authorised Capital	HK\$40,000,000
Issued Capital	HK\$40,000,000
Shareholder	Cheong Lee BVI
Nature	Cheong Lee is the operating subsidiary of the Company whose principal business is summarised in the paragraph headed “Business” under the section headed “Summary” of this prospectus

## E. DISCLOSURE OF INTERESTS

## 1. Interest of Substantial Shareholders in Shares and Underlying Shares of the Company

The Directors confirmed that immediately following the completion of the Placing, but taking no account of any Shares which may be issued and allotted upon the exercise of any options which may be granted under the Share Option Schemes or repurchased by the Company pursuant to the mandates as referred to in the section headed “Further information about the Company” in this Appendix, the persons (other than the Directors or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO or who are 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 member of the Group will be as follows:

*Long position in Shares*

Name	Capacity	Number of Shares (Note)	Approximate percentage of shareholding
Ms. Au	Interest in controlled corporation (Note)	750,000,000	75%
BVI Holding Company	Beneficial owner	750,000,000	75%

*Note:* Ms. Au beneficially owned 100% interest in the BVI Holding Company. Therefore, Ms. Au was deemed, or taken to be, interested in the 750,000,000 Shares held by the BVI Holding Company under the SFO and their interests duplicate with each other.

## 2. Interests of Directors in the Shares, Underlying Shares and Debentures of the Company and its associated corporations

The Directors confirmed that immediately following completion of the Placing and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Schemes or repurchased by the Company pursuant to the mandates as referred to in the section headed “Further information about the Company” in this Appendix, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors required to be notified to the Company and the Stock Exchange, will be as follows:

### *Long position in underlying Shares or equity derivatives of the Company*

Name	Capacity	Number of underlying Shares (Note)	Approximate percentage of shareholding
Kwok Kin Chung	Beneficial owner	500,000	0.05%
Lau Ka Lung Ali	Beneficial owner	1,500,000	0.15%
Lau Kin Hon	Beneficial owner	1,000,000	0.10%
Yu Linda	Beneficial owner	1,500,000	0.15%

*Note :* These represented the underlying Shares under the options conditionally granted to each of the above Directors under the Pre-IPO Share Option Scheme.

**3. Particulars of service contracts**

On 25 February 2011, each of the executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a term of three years commencing from 25 February 2011 subject to termination by not less than three months written notice subject to termination in certain circumstances as stipulated in the relevant service contracts. Each of these executive Directors is entitled to a basic salary, year end payment and discretionary bonus. Their respective salaries are set out as below. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current annual salaries of the executive Directors are as follows:

<b>Name</b>	<b>Amount</b>
Mr. Kwok Kin Chung	HK\$504,000
Mr. Lau Ka Lung Ali	HK\$600,000
Mr. Lau Kin Hon	HK\$180,000
Ms. Yu Linda	HK\$480,000

On 25 February 2011, each of the independent non-executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of one year commencing from 25 February 2011 renewable for one year upon the expiration of the initial term and each subsequent one-year term subject to termination in certain circumstances as stipulated in the relevant service contracts. The annual remunerations payable to the independent non-executive Director under each of the service contracts are as follows:

<b>Name</b>	<b>Amount</b>
Mr. Au Yeung Tai Hong Rorce	HK\$120,000
Mr. Chee Kwok Wing Waymond	HK\$120,000
Ms. Choy Wing Man	HK\$120,000

Save as disclosed above, none of the Directors has or is proposed to have any service agreement with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

***Remuneration of Directors***

The aggregate remuneration paid by the Group to the Directors in respect of the two years ended 31 March 2009 and 31 March 2010 were approximately HK\$1.2 million and HK\$0.8 million respectively.

Pursuant to the current arrangements, it is estimated that an aggregate amount of approximately HK\$1.6 million will be paid to the Directors as Directors' remuneration for the year ending 31 March 2011.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration to be determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

**4. Agency fees or commissions received**

Save for the Underwriters will receive the commission as disclosed in the paragraph headed "Commissions, fees and expenses" in the section headed "Underwriters" of this prospectus; none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix had received any agency fee or commissions from the Group within the two years preceding date of this prospectus.

**5. Related party transactions**

Save as disclosed in Note 34 of the accountant's report set out in Appendix I to this prospectus and other parts of this prospectus, the Group has not engaged in any dealings with the Directors or their associates (as defined in the GEM Listing Rules) during the two years immediately preceding the date of this prospectus.

**6. Disclaimers**

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of options which have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme or repurchased by the Company pursuant to the mandates as referred to in the section headed “Further information about the Company” in this Appendix, the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Placing, have an interest or short position in the Shares or underlying Shares of the Company which will have to be notified to the Company and the Stock Exchange pursuant to 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 or any class of share capital carrying rights to vote in all circumstances at general meetings of the Company;
- (b) none of the Directors or chief executive of the Company will have an interest or short position in the Shares, underlying Shares or debentures of the Company or any of 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, in each case once the Shares are listed on the Stock Exchange;
- (c) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” of this Appendix is interested in the promotion of the Company, or in any assets which have been within the two years immediately preceding the issue of this prospectus acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;
- (d) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company taken as a whole;
- (e) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” of this Appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company;

- (f) none of the Directors has any existing or proposed service contracts with the Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (g) no remuneration or other benefits in kind have been paid by the Company to any Director since the date of incorporation of the Company, nor are any remuneration or benefits in kind payable by the Company to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

**F. I. PRE-IPO SHARE OPTION SCHEME**

**Summary of terms**

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution to the Group by certain executive directors and employees of the members of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of the sole Shareholder passed on 22 February 2011, are substantially the same as the terms of the Share Option Scheme except for the following:

- (a) the purpose of the Pre-IPO Share Option Scheme is to aid the Company in retaining key and senior employees of the Group;
- (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 6,300,000, representing (i) approximately 0.63% of the total issued Shares immediately upon completion of the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme); and (ii) approximately 0.626% of the total issued share capital of the Company immediately upon completion of the Placing and assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme);
- (c) the subscription price for the Shares under the Pre-IPO Share Option Scheme equals to the Placing Price;

- (d) subject to the following vesting periods, any option granted under the Pre-IPO Share Option Scheme will be exercisable commencing on the day falling on the first anniversary of the Listing Date and ending on the day immediately before the third anniversary of the Listing Date. All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

<b>Maximum number of Shares under the option exercisable</b>	<b>Period for exercise of the relevant option</b>
A maximum of 500,000 Shares under the options granted to him, or if the number of the Shares under the Options granted to him is less than 500,000, his maximum entitlements under the Options granted to him	On or after the date falling on the first anniversary of the Listing Date to the date immediately before the second anniversary of the Listing Date
The remaining Shares, if any, under the options granted to him	On or after the date falling on the second anniversary of the Listing Date to the date immediately before the third anniversary of the Listing Date

All the options granted under the Pre-IPO Share Option Scheme will not be exercisable prior to the first anniversary of the Listing Date. Outstanding and unexercised options at the end of each vesting period may be rolled over to the next vesting period and exercisable during the option period.

- (e) the Pre-IPO Share Option Scheme will remain in force for a period commencing on 22 February 2011, being the date on which the Pre-IPO Share Option Scheme is adopted by the sole Shareholder and ending on the day immediately prior to the Listing Date, after which period no further options will be granted thereunder but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the exercise of any options granted.

All options were conditionally granted to the grantees on 25 February 2011. An application has been made to the Listing Division of the Stock Exchange for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

**Outstanding options granted under the Pre-IPO Share Option Scheme**

On 25 February 2011, options to subscribe for an aggregate of 6,300,000 Shares (representing (i) approximately 0.63% of the total issued share capital of the Company immediately upon completion of the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme) and (ii) approximately 0.626% of the total issued share capital of the Company immediately upon completion of the Placing and assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme for a consideration HK\$1.00 per option. Particulars of the options granted under the Pre-IPO Share Option Scheme to employees and executive directors of the members of the Group are set out below. Save as disclosed below, no Directors, substantial Shareholders or other connected persons (as defined under the GEM Listing Rules) of the Company or any of its subsidiaries or their respective associates have been granted options under the Pre-IPO Share Option Scheme.

Options to subscribe for an aggregate of 6,300,000 Shares were conditionally granted to the following grantees on 25 February 2011 under the Pre-IPO Share Option Scheme:

Name and position of grantee in the Group	Address	No. of Shares subject to the option	Approximate percentage of issued share capital of the Company immediately after the Placing
<b><i>Directors</i></b>			
Lau Ka Lung Ali <i>Executive Director</i>	Flat C, 34th Floor, Block 2, 2 King San Path, Kingston Terrace, Tuen Mun, New Territories, Hong Kong	1,500,000	0.15%
Yu Linda <i>Executive Director</i>	Flat C, 18th Floor, Cathay Lodge 125 Wanchai Road, Hong Kong	1,500,000	0.15%
Lau Kin Hon <i>Executive Director</i>	Flat A, 3rd Floor, Block 3 Braemar Hill Mansions, 19 Braemar Hill Road, North Point, Hong Kong	1,000,000	0.10%

Name and position of grantee in the Group	Address	No. of Shares subject to the option	Approximate percentage of issued share capital of the Company immediately after the Placing
Kwok Kin Chung <i>Executive Director</i>	2nd Floor, 37 Tin Liu New Village Pak Lam Road, Ma Wan, New Territories Hong Kong	500,000	0.05%
<b><i>Employees</i></b>			
Au Nim Bing (Note) <i>Human resources &amp; administration manager</i>	13B, Tower 1, Residence Bel-Air Pok Fu Lam, Hong Kong	700,000	0.07%
Lee Kit Fong Casey <i>Assistant settlement manager</i>	G/F, 19H Hang Hau Village Tseung Kwan O New Territories, Hong Kong	500,000	0.05%
Chan Kam Wah <i>Company secretary and finance manager</i>	Flat C, 20/F, Block 34 Laguna City, Lam Tin Kowloon, Hong Kong	300,000	0.03%
Ho Ka Huen <i>Senior dealer</i>	20, 19/F Man Wah Building Man Wu Street Jordan, Hong Kong	200,000	0.02%
Lam Yin Fun <i>Senior account clerk</i>	Room 1013 Lei Chak House Ap Lei Chau Estate Hong Kong	100,000	0.01%
Total		6,300,000	0.63%

*Note :* Ms. Au Nim Bing is the sister of Ms. Au, the Controlling Shareholder.

If all options under the Pre-IPO Share Option Scheme are exercised, this would have a dilution effect on the shareholdings of the Shareholders of approximately 0.626% and a dilution effect of approximately 0.626% on earnings per Share. However, as the options are exercisable for a period of up to the third anniversary of the Listing Date, any such dilution and impact on earnings per Share will be affected for several years.

## **F. II. SHARE OPTION SCHEME**

The Company has conditionally adopted the Share Option Scheme on 22 February 2011. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

### **(a) Definitions**

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	22 February 2011, the date on which the Share Option Scheme is conditionally adopted by the sole Shareholder by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Group”	the Company and any entity in which the Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

**(b) Summary of terms**

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of the sole Shareholder passed on 22 February 2011:

**(i) Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and service providers of the Group and to promote the success of the business of the Group.

**(ii) Who may join and basis of eligibility**

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

**(iii) Price of Shares**

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than 5 business days, the new issue price shall be used as the closing price for any business day fall within the period before listing.

**(iv) Grant of options and acceptance of offers**

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.

**(v) Maximum number of Shares**

- (aa) subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the Shares in issue as at the Listing Date. Therefore, it is expected that the Company may grant options in respect of up to 100,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 100,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the GEM Listing Rules in this regard.

- (cc) the Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the GEM Listing Rules.
- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of the Company, if this will result in such 30% limit being exceeded.

***(vi) Maximum entitlement of each participant***

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, the Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

***(vii) Grant of options to certain connected persons***

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of the Company, with voting to be taken by way of poll. The Company shall send a circular to the Shareholders containing all information as required under the GEM Listing Rules in this regard. All connected persons of the Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

***(viii) Restrictions on the times of grant of options***

(aa) An offer for the grant of options may not be made after a price sensitive event of the Group has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and

- (ii) the deadline for the Company to publish an announcement of the results for any year, or half-year under the GEM Listing Rules, or quarterly or other interim period (whether or not required under the GEM Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted on any day on which financial results of the Company are published and:
  - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
  - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results 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.

***(ix) Time of exercise of option***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

***(x) Performance targets***

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

***(xi) Ranking of Shares***

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of the Company as the holder thereof.

***(xii) Rights are personal to grantee***

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

***(xiii) Rights on cessation of employment by death***

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

***(xiv) Rights on cessation of employment by dismissal***

In the event that the grantee is an employee of the Group at the date of grant and he subsequently ceases to be an employee of the Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an 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 involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

***(xv) Rights on cessation of employment for other reasons***

In the event that the grantee is an employee of the Group at the date of grant and he subsequently ceases to be an employee of the Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with the Company or the relevant member of the Group whether salary is paid in lieu of notice or not).

***(xvi) Effects of alterations to share capital***

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which any member of the Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to the Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the GEM Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee the same proportion of the issued share capital of the Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

***(xvii) Rights on a general offer***

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 1 month after the date on which the offer becomes or is declared unconditional.

***(xviii) Rights on winding-up***

In the event a notice is given by the Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

***(xix) Rights on compromise or arrangement***

In the event of a compromise or arrangement between the Company and the Shareholders or the creditors of the Company being proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies pursuant to the Companies Law, the Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than 2 business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“Suspension Date”), by giving notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of the Company or any of its officers.

***(xx) Lapse of options***

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises the Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of the Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of the Group, the date on which the grantee ceases to be a substantial shareholder of such member of the Group; or
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

***(xxi) Cancellation of options granted but not yet exercised***

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

***(xxii) Period of the Share Option Scheme***

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

***(xxiii) Alteration to the Share Option Scheme***

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 23.03 of the GEM Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the GEM Listing Rules or any guidelines issued by the Stock Exchange from time to time.

***(xxiv) Termination to the Share Option Scheme***

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

***(xxv) Conditions of the Share Option Scheme***

The Share Option Scheme is conditional on the Listing Division of the Stock Exchange granting the listing of, and permission to deal in the Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

**(c) Present status of the Share Option Scheme**

Application has been made to the Listing Division of the Stock Exchange for listing of and permission to deal in 100,000,000 Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

**G. OTHER INFORMATION**

**1. Indemnities**

Each of BVI Holding Company and Ms. Au, pursuant to a deed of indemnity referred to the paragraph headed “Summary of material contracts” of this Appendix, has given joint and several indemnities in respect of, among other things, any taxation liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Placing becomes unconditional (the “Effective Date”), save:

- (a) to the extent that provision or reserve has been made for such taxation in the combined audited accounts of the Group up to 31 August 2010;
- (b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Effective Date;
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction effected by, any members of the Group which are carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date or pursuant to any statement of intention made in this prospectus; or consisting of any of the companies ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

- (d) to the extent of any provision or reserve made for taxation in the audited accounts of the Group up to 31 August 2010 which is finally established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands and other jurisdiction in which the companies comprising the Group are incorporated.

## **2. Litigation**

The Directors confirmed that as at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of the Group.

## **3. Sponsor**

The Sponsor has made an application on behalf of the Company to the Listing Division of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

## **4. Compliance adviser**

In accordance with the requirements of the GEM Listing Rules, the Company is expected to appoint VC Capital as its compliance adviser to provide advisory services to the Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year ending 31 March 2013.

## **5. Preliminary expenses**

The preliminary expenses relating to the incorporation of the Company are approximately HK\$42,000 and are payable by the Company.

## **6. Promoter**

The Company has no promoter.

**7. Qualifications of experts**

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
VC Capital	a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activity
HLM & Co.	Certified public accountants
BMI Appraisals Limited	Professional property surveyors and valuers
Conyers Dill & Pearman	Cayman Islands attorney-at-law
Loong & Yeung	Legal advisers of the Company as to Hong Kong Laws

**8. Consents of experts**

Each of VC Capital, HLM & Co., BMI Appraisals Limited, Conyers Dill & Pearman and Loong & Yeung has given and has not withdrawn their respective written consents to the issue of this prospectus, with the inclusion of their letters, reports, and/or valuation certificates and/or opinions and/or references to their names (as the case may be), in the form and context in which they respectively appear.

**9. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

**10. Registration procedures**

The principal register of members of the Company in the Cayman Islands will be maintained by Codan Trust Company (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**11. No material adverse change**

Save as disclosed in the paragraph headed “Financial performance for the nine months ended 31 December 2010 and the possible impact of certain non-recurring expenses to financial performance” of the section headed “Financial information” in this prospectus, the Directors confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group and no event had occurred that would materially affect the information shown in the accountants’ report set out in Appendix I to this prospectus since 31 August 2010, being the date to which the latest audited financial statements of the Group were made up, and during the period from 1 September 2010 to the Latest Practicable Date (both dates inclusive).

**12. Taxation of holders of Shares****(a) Hong Kong**

Dealings in Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

**(b) Cayman Islands**

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of the Shares.

**(c) Consultation with professional advisers**

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of the Company, the Directors or their parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

**13. Miscellaneous**

- (a) Save as disclosed herein:
  - (i) Within the two years immediately preceding the date of this prospectus:
    - (aa) no share or loan capital of the Company has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company;
    - (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares; and
    - (dd) no founder, management or deferred shares of the Company have been issued or agreed to be issued.
  - (ii) No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
  - (iii) The English text of this prospectus shall prevail over the Chinese text.

**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the statement of adjustments relating to the accountants' report issued by HLM & Co., the written consents referred to in the paragraph headed "Consents of experts" of Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" of Appendix V to this prospectus.

**B. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Loong & Yeung at Suites 2001 – 2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles;
- (b) the accountants' report of the Group dated the date of this prospectus prepared by HLM & Co., the text of which is set out in Appendix I to this prospectus;
- (c) the letter on unaudited pro forma financial information issued by HLM & Co., the text of which is set out in Appendix II to this prospectus;
- (d) the statement of adjustments relating to the accountants' report issued by HLM & Co.;
- (e) the letter dated the date of this prospectus, a summary of values and valuation certificates relating to the properties leased by the Group prepared by BMI Appraisals Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (g) the Companies Law;
- (h) the service contracts referred to in the paragraph headed "Particulars of service contracts" in Appendix V to this prospectus;
- (i) the rules of the Pre-IPO Share Option Scheme referred to in the paragraph headed "Pre-IPO Share Option Scheme" in Appendix V to this prospectus;

- (j) the rules of the Share Option Scheme referred to in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus;
- (k) the material contracts referred to in the section headed “Summary of material contracts” in Appendix V to this prospectus; and
- (l) the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus.