



---

## BUSINESS

---

### OVERVIEW

Our Group is principally engaged in the insurance and MPF schemes brokerage business. We negotiate and arrange contracts of insurance and MPF schemes in Hong Kong as the agent of our customers, i.e. the policyholders, and advise on matters related to insurance. In pursuing the insurance brokerage business, CFS commenced business in 1993, for carrying on long term (including linked long term) and general insurance business, and to provide independent advisory services in connection with insurance products. In October 1998, our Group started our brokerage business through CFS. In December 1999, our Group commenced MPF schemes brokerage business to tap into the unexplored market of MPF which was launched in December 2000. CFS is a corporate member of PIBA and corporate intermediary of MPFA. We carry on our business under the Trademarks ( , CONVOY, 康宏理财, 康宏 and  ) through a non-exclusive licence granted by CTL, a wholly-owned subsidiary of CFG.

ILAS or Investment-linked Assurance Scheme is the major contracts of insurance on which our Group provides advisory services and from which over 99% of our Group's revenue for the three years ended 31 December 2007, 2008 and 2009 was generated. As a supplement, our Group also acts as an independent broker for general and conventional insurance products and MPF schemes in the course of providing advisory services to the customers.

The following table sets out a breakdown of our revenue for the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
ILAS .....	633,873	99.66	552,943	99.76	451,637	99.14
Other insurance products .....	1,743	0.27	410	0.07	3,391	0.74
MPF schemes .....	452	0.07	930	0.17	559	0.12
<b>Total</b> .....	<u>636,068</u>	<u>100.00</u>	<u>554,283</u>	<u>100.00</u>	<u>455,587</u>	<u>100.00</u>

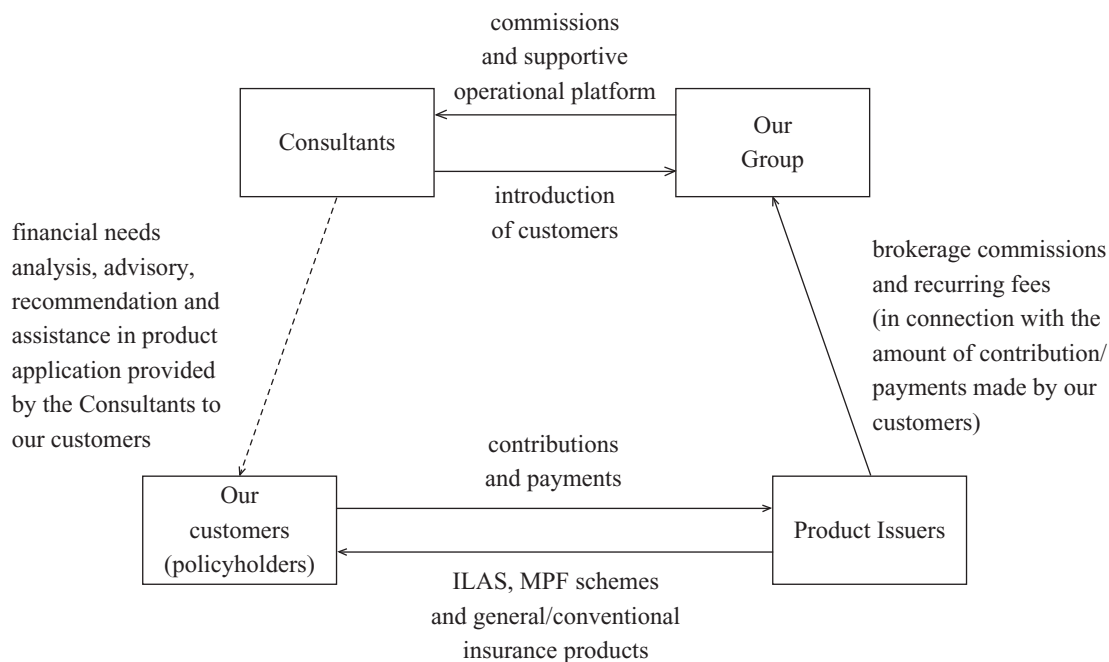
Our customers are policyholders whom the Consultants provide services to. Our Directors believe that the Listing will be definitely conducive to the further enhancement of our Group's image and our onward development in the insurance and MPF schemes brokerage market in the future.

Our Directors believe that among all products and schemes we promote, ILAS is the most popular choice as it is believed to be one of the most effective insurance products to achieve our customers' objectives. A brief study of the popularity of ILAS in Hong Kong is set out under the paragraph headed "Development of ILAS in Hong Kong" in the section headed "Industry overview" in this prospectus. Our Group is not involved in the underwriting of any product or scheme we promote.

Being an independent insurance broker, our Group has certain competitive advantages in respect of the services we provide as shown under the paragraph headed "Competitive advantages of an independent insurance broker" in the section headed "Industry overview" in this prospectus and under the paragraph headed "Our competitive advantages" in this section.

**OUR BUSINESS MODEL**

The simplified diagram below illustrates our existing business model:



Note : The solid lines represent either payment of money or contractual relationship between the parties. The dotted line represents provision of services.

CFS establishes business relationships with the Product Issuers by entering into the broker agreements. Our customers are policyholders whom the Consultants provide services to. Our Directors believe that it is the industry norm that the independent insurance brokers treat the policyholders as their customers. Our Group delivers our services to the customers through the Consultants. In conducting the business, the Consultants will (i) conduct financial needs analysis for customers who need long term insurance products and schemes (including ILAS); and (ii) advise or make recommendations to the customers concerning the selection by them of the underlying funds of ILAS. Our customers will pay contributions to the Product Issuers directly. The Product Issuers, which develop the insurance products, would remunerate our Group on a commission and recurring fee basis for services provided by our Group to the customers.

Although brokerage commission income and recurring fees are paid to us by the Product Issuers, the policyholders are our customers whom the Consultants provide services to. Our Directors consider that the arrangement (as described in the above diagram) will not lead to conflicts despite commission income is paid by the Product Issuers because (i) our focus is to provide advices and information to our customers according to their objectives, needs and concerns; and (ii) our Group is dedicated to provide a comprehensive and quality choice of various products to the customers through maintaining business relationships with various Product Issuers and performing due diligence on their products, to enable the customers to make informed decision as to their choice of product(s). Our Directors believe that the aforementioned relationships among customers, authorised insurers, insurance brokers and consultants are common across the insurance brokerage industry in Hong Kong.

Our customers entered into product purchase contracts with the Product Issuers for which our Group is not a party to the contracts. The written documents that the customers signed with our Group

---

## BUSINESS

---

are, among others, Needs Analysis Form, Suitability Questionnaire and an Applicant's Declaration to ensure that the ILAS our customers purchased are suitable for them and consistent with their requirements and risk appetite. Our Directors confirm that no extra liabilities arise with our Group in addition to usual liabilities which an insurance broker is subject to such as failure to comply with the code of conduct of PIBA and/or MPFA, as a result of customers' signing of the aforementioned documents.

In the event that inappropriate products are recommended by the Consultants to and purchased by the customers, our Group will need to bear the liabilities, subject to the indemnity provided by the relevant Consultants under the contracts for services. The Product Issuers will bear the liabilities when the products themselves have defects or there are misrepresentations in the Product Issuers' documentations for the products.

The top five ILAS Issuers of our Group in terms of commission income, together accounted for approximately 98.5%, 96.9% and 97.1% respectively of our Group's revenue for the three years ended 31 December 2007, 2008 and 2009. Each of our top five Product Issuers issues ILAS themselves. Four of the top five ILAS Issuers of our Group are Zurich International Life Limited, Friends Provident International Limited, Standard Life (Asia) Limited and Generali International Limited. The largest ILAS Issuer of our Group, in terms of commission income, accounted for approximately 50.9%, 48.2% and 43.7% respectively of our Group's revenue for the three years ended 31 December 2007, 2008 and 2009. We therefore are reliant on a few ILAS Issuers, who are independent of us, for a substantial portion of our total revenue. Our Directors consider the concentration of ILAS Issuers for commission income is common across the insurance brokerage industry. For further details of our Group's risk of concentration of ILAS Issuers for commission income, please refer to the paragraph headed "We rely on our top five ILAS Issuers for a significant portion of our revenue, and we anticipate such dependence to continue in the near future" in the section headed "Risk factors" in this prospectus.

All Consultants are contracted under contracts for services with CFS and are registered with PIBA as technical representatives of CFS but do not have any contractual relationship with the Product Issuers. There were 1,023 Consultants, and they represented the largest team of Consultants who were licensed to market ILAS in Hong Kong as at the Latest Practicable Date. Details of the Consultants were shown under the paragraph headed "Our competitive advantages" in this section. The majority of our business is being generated from referrals recurring business from existing customers and the remaining is from direct marketing. Referrals, recurring business from existing customers and direct marketing accounted for approximately 47.4%, 34.3% and 18.3% of the business of our Group for the year ended 31 December 2009 respectively.

There were 751 Consultants who were registered with both PIBA and MPFA as representatives of CFS as at the Latest Practicable Date, representing approximately 73.4% of the teams of Consultants.

The Consultants act as representatives for our Group so that they are responsible for soliciting insurance and MPF schemes brokerage business in Hong Kong in the scope of independent insurance and MPF brokerage in accordance with all applicable codes, rules, laws and regulations of the relevant regulatory bodies and Government authorities in Hong Kong. As opposed to insurance agents engaged by authorised insurers in Hong Kong, the Consultants have no contractual relationship with and are independent of the Product Issuers. Both the Consultants and our Group are responsible for the advisory services provided to customers and potential customers. Although our Group may be subject

---

## BUSINESS

---

to civil liabilities and/or disciplinary actions of regulatory authorities (such as PIBA) if there is any misconduct by the Consultants in selling ILAS, the Consultants will indemnify our Group from and against all actions, claims, proceedings, costs, damages and expenses which may be levied, brought, incurred or made against our Group by any customer and potential customer in respect of or arising out of the provision of the services provided by the Consultants pursuant to contracts for services between the Consultants and CFS. When the indemnity mechanism is invoked and the relevant Consultants fail to indemnify our Group, our Group will need to compensate the customers for their losses arising from the provision of services by the Consultants before obtaining reimbursement from the Consultants. Naturally, these indemnities from the Consultants, depending on the personal financial situation of the Consultants, can be of limited value. Our Group manages the risk of misconduct by the Consultants and hence the need to invoke such indemnity mechanism against the Consultants and our Directors consider that the risk of the need to invoke indemnity is minimised by the internal control mechanisms as disclosed under the paragraph headed “Long established and comprehensive internal control system” in this section. Our Group is not aware of the availability of insurance to cover situation of Consultants’ failure to honour indemnity. Our Directors consider that there was no occasion where we consider it necessary to invoke indemnity provision against the Consultants for complaints from customers or compliance issues arising out of services provided by the Consultants up to the Latest Practicable Date. There has been one occasion where CFS offered compensation without obtaining reimbursement from the relevant Consultant, details of which are disclosed under the paragraph headed “Summary of investigation and compliance issues” in this section.

CFS is also registered as an MPF corporate intermediary by the MPFA and therefore is eligible to carry on the business of selling/advising on MPF schemes.

---

## BUSINESS

---

### RELATIONSHIP WITH CONSULTANTS

The Consultants, except for licensed trainees, are not employed by CFS, but CFS has entered into contracts for services with the Consultants on the basis that they are providing exclusive insurance and MPF schemes brokerage services in Hong Kong to CFS. The Consultants promote, arrange and negotiate contracts of insurance and MPF schemes with the customers independently in accordance with all applicable codes, rules, laws and regulations of the relevant regulatory bodies and government authorities in Hong Kong and are remunerated on a commission basis by CFS for the insurance products and MPF schemes which they have successfully arranged. Each party under the aforesaid contract for services is required to give the other party one month's written notice to terminate such contract. Furthermore, the Consultants are prohibited by the contracts for services entered into between CFS and the Consultants to engage or be interested either directly or indirectly as principal, agent or employee in promoting any business similar to those of our Group without obtaining prior consent of our Group in writing during the continuance in force of the contracts for services and are prohibited to engage in or undertake the business similar to those of our Group in Hong Kong, including but not limited to the business of the provision of insurance and MPF schemes brokerage services in Hong Kong during the three months immediately following the termination of the contracts for services. The number of years of relationship we have established with the Consultants and trainees as recorded during the Track Record Period is summarised as follows:

	As at 31 December		
	2007	2008	2009
<b>Years of relationship</b>			
Less than 1 year .....	431	485	373
Between 1 to 5 years .....	515	661	593
More than 5 years .....	80	119	178
<b>Total</b> .....	<u>1,026</u>	<u>1,265</u>	<u>1,144</u>

When the Consultants accomplish new business and produce brokerage commission income for our Group through the sale of various insurance products and MPF schemes in the course of provision of advisory services to customers who in turn enter into insurance policy contracts with the Product Issuers (which contracts are issued by the Product Issuers), our Group pays commission to the Consultants in accordance with (i) the terms and conditions stipulated in the contracts for services entered into between the Consultants and CFS; (ii) the Consultants' respective grading; and (iii) the conditions set by our Group being satisfied, such as relevant documents having been filed with our Group and relevant commission income having been received from the Product Issuers. The payment of commission to the Consultants depends on the pattern of commission income and recurring fees received by our Group from the Product Issuers and varies with different types of products. For Regular-savings ILAS, commission to the Consultants is generally paid in equal monthly installments over the period of not more than 10 months, depending on tenor and/or size of premium; whereas for Lump-sum ILAS and other insurance products, commission to the Consultants is generally paid in a lump-sum, upon receipt of the relevant commission income or recurring fees from the Product Issuers. For MPF schemes, the commission to the Consultants is generally paid in a lump-sum or in equal monthly installments over the period of not more than 12 months, upon receipt of relevant income from the MPF Providers. During the year ended 31 December 2009, commission payable to the Consultants in respect of ILAS brokerage commission income ranged from 43.5% to 78.2% of the relevant amount received from the ILAS Issuers.

---

## BUSINESS

---

As at the Latest Practicable Date, 835 out of 1,023 Consultants were accredited to both CFS and CAM. A Consultant will receive commissions from CFS and/or CAM for products offered by CFS or CAM on the contract sum at the same rate no matter they are selling CFS products or CAM products. The commission arrangements for a Consultant when selling CAM's products is similar to that when selling CFS's Lump-sum ILAS as described above in this section. Commission rates paid by Product Issuers to CFS is generally higher than those to CAM for most of their products.

Investment funds are fundamentally different from ILAS with the result that it is the needs of customers instead of difference in commission arrangement that will be the most relevant driving force for customers to choose investment funds or ILAS. By way of examples, investment funds with the features of exit mechanism are suitable for customers who need to have higher liquidity, whilst ILAS products are more suitable for customers who have medium to long term investment horizon given ILAS's much longer maturity. Likewise, ILAS offers an opportunity for customers to gain exposure to a basket of funds through contributions made for a single policy, where such feature is not available for investment funds offered by CAM and therefore investment funds are not suitable for customers who look for such an opportunity.

Our Group also allocates resources in maintaining and developing effective and supportive operation platform for the Consultants to carry on the business. Such resources include, among others, overheads for compliance and internal control, marketing, information technology systems, training, office spaces, continuous professional development programs, general administration and offering of short term loan facilities to the Consultants as financial assistance, etc. The Consultants need to bear part of the training expenses and certain office expenses at cost basis.

Due to the global economic downturn outburst in the fourth quarter of 2008, the commission income from our Group and hence the livelihood of certain Consultants were severely affected. In this regard, CFS offered a one-off short term loan program in January 2009 to those Consultants entitled as consultant, senior consultant or principal consultant who earned less than an aggregate of HK\$20,000 in the latest three months (the **"One-off Short Term Loans"**). Eligible Consultants are required to submit an application and such application requires endorsement or guarantee by the direct recruiter of the Consultants and the respective immediate associate director. Subject to approval by CFS, an installment loan of six payments amounting to HK\$8,000 per month will be provided to each successful Consultant as long as he/she being continuously contracted with CFS. During the aforesaid six-month period, interest of 2% per annum will be applied to the outstanding loan and 50% of commission income of each successful Consultant will be deducted to offset the outstanding loan. After the six-month period, the outstanding loan plus interest will be automatically changed into a 12-month installment term loan with an interest rate of 8% per annum. Our Company is advised by its legal advisers as to Hong Kong laws that CFS making the One-off Short Term Loans complies with the relevant laws in Hong Kong in that based on the fact that the One-off Short Term Loans were made by CFS (whose ordinary business does not primarily or mainly involve the lending of money) in the ordinary course of its insurance and MPF schemes brokerage business for the purpose of facilitating the Consultants to carry out the same business, the One-off Short Term Loans should fall within the exempted loans under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and therefore such arrangement of the One-off Short Term Loans should not be in breach of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

As mentioned under the paragraph headed "The Development Model" in this section, some Consultants decide to pursue their career path to build their own teams of Consultants and recruit new

---

## BUSINESS

---

trainees or new Consultants. These supervisory Consultants will firstly recommend candidates and will then recommend whom they consider suitable to CFS. Interview records will then be reviewed by independent staff of CFS. If CFS is satisfied with these candidates, CFS will engage them as new trainees or new Consultants (if the candidates are readily and properly licensed by PIBA and accredited to CFS, for example, current PIBA licensee accredited to other insurance intermediary companies). The trainees are entitled to a fixed salary and MPF contributions provided by our Group during training period of normally six months. At the expiration of the training period, CFS will only enter into the contracts for services with those who have performed to the satisfaction of CFS and who will be generally remunerated on a commission basis as contractors to CFS and subject to terms and conditions under the contract for services. Only upon successful registration with PIBA will these Consultants be allowed to represent CFS to offer services in negotiating contracts of insurance. Our Directors believe, to the best of their knowledge, that the majority of new Consultants and new trainees are introduced by the Consultants.

The supervisory Consultants are entitled to share overriding commission (being the difference between the higher commission rate of a supervisory Consultant for transactions and lower commission rate of a new Consultant for the same transactions) for transactions successfully arranged by the new Consultants. Our Directors believe that this practice is a norm across the insurance and MPF intermediary industry.

### OUR REVENUE MODEL

Our Group is entitled to receive one-off brokerage commission income and recurring fee income from various Product Issuers for brokering the sale of their products. The following table sets out the amount of one-off brokerage commission income and recurring fee income for the Track Record Period:

	2007		2008		2009	
	HK\$'000	Percentage of total	HK\$'000	Percentage of total	HK\$'000	Percentage of total
One-off brokerage commission income . . . . .	625,615	98%	540,309	97%	439,582	96%
Recurring fee income . . . . .	10,453	2%	13,974	3%	16,005	4%
<b>Total</b> . . . . .	<u>636,068</u>		<u>554,283</u>		<u>455,587</u>	

During the Track Record Period, most of our Group's revenue was attributable to one-off brokerage commission income derived from sale of (i) ILAS; (ii) general and conventional insurance products; and (iii) MPF schemes. There was no significant fluctuation in the one-off brokerage commission income and recurring fee income respectively as a percentage of total commission income of our Group during the Track Record Period. The one-off brokerage commission income and recurring fee income receivable in respect of ILAS and general and conventional insurance products are normally settled within 45 days upon receiving the commission statements. The income derived from the MPF schemes includes up-front commission and recurring management fee which are receivable upon the execution of the MPF schemes and periodically as agreed with the MPF Providers with reference to the underlying asset value of the MPF schemes.

Our Group records accounts receivable due from the Product Issuers and our profit margin depends on, among others, the commission rates offered by the Product Issuers rather than the policyholders. Commission income is payable by the Product Issuers who may default their payment obligation to our Group even the customers paid the premiums to the Product Issuers. Accordingly, our Group is subject to the credit risk and bankruptcy risk from the Product Issuers.

---

## BUSINESS

---

(i) ILAS business

Our Group's business relationships with various ILAS Issuers, who are independent of us, are formed on the basis of the terms of business and/or conditions issued by the ILAS Issuer(s) to our Group. The broker agreements entered into between CFS and the ILAS Issuers have no expiry date and can be terminated subject to one month's advance notice and/or under certain circumstances. For details of the broker agreements, please refer to the paragraph headed "Establishment of business relationships with Product Issuers" below in this section. For each of the three years ended 31 December 2007, 2008 and 2009, the revenue of our Group attributable to the one-off brokerage commission income and recurring fee income derived from the sale of ILAS amounted to approximately HK\$633.9 million, HK\$552.9 million and HK\$451.6 million, representing approximately 99.7%, 99.8% and 99.1% of our Group's total revenue respectively. The one-off brokerage commission income and recurring fee income of ILAS are calculated generally as a percentage of the total premium of policy. The ILAS Issuers deliver their commission statements to our Group on a regular basis, such as weekly and monthly. Upon receiving the commission statements by our Group, the relevant ILAS Issuers would generally pay the one-off brokerage commission and recurring fee income to our Group within 45 days. Our Group recognises the income on an accrual basis upon receipt of the commission statements as confirmations from the ILAS Issuers.

*Commission clawback*

Pursuant to the terms of the broker agreements entered into between our Group and the ILAS Issuers, the commission paid by the ILAS Issuers in relation to Regular-savings ILAS to our Group is subject to commission clawback, which applies solely to Regular-savings ILAS, by the ILAS Issuers on a pro-rata basis over an indemnified period. The indemnified period for commission clawback is generally from 6 months to 24 months. If a customer terminates his/her regular contributions in the indemnified period, the ILAS Issuers will recalculate the relevant commission that should be paid and clawback any excess already paid, i.e., if a customer terminates his/her Regular-savings ILAS policy a number of months after the date of execution of his/her insurance policy and such termination falls within the indemnified period, our Group is entitled to retain the commission for a portion of such number of months over the relevant indemnified period and shall refund any excess of the commission already received to the Product Issuers.

Our Group has made an estimation of the expected cash outflows related to commission clawback for the business in the indemnified period which is subject to commission clawback with reference to a model which is established and developed by our Group (and which in our Directors' opinion is objective and consistent). Such commission clawback model is a function of the remaining number of the months of the indemnified period, and probability of occurrence of clawback with data accumulated from January 2000 after taking into account the sales volume, pattern of time of termination, ratio of terminated business to sales volume, past experience of the levels of clawback, and our Directors' best estimates of the expenditure required to settle the obligations in relation to the Regular-savings ILAS. The commission clawback is then prudently estimated to account for probable commission clawback of the business being in the indemnified period at the end of that financial year. All commission clawback borne by our Group occurred in the same financial year is immediately debited in our Group's revenue.

Pursuant to the contract for services entered into between each of the Consultants and CFS, the Consultants are required to bear part of the commission clawback based on a ratio of the Consultants' commission entitlement to our Group's brokerage commission income derived from the sale of



## BUSINESS

Regular-savings ILAS. The commission clawback borne by the Consultants is calculated based on the commission paid by our Group to the Consultants on a same pro-rata basis as the commission clawback by the product issuers as mentioned above.

The amount of estimated commission clawback as at 31 December 2006, 2007 and 2008 were approximately HK\$4.1 million, HK\$5.1 million and HK\$8.0 million, representing approximately 1.1%, 0.8% and 1.4% of the revenue of our Group for each of the three years ended 31 December 2008. These estimated sums were set aside at the end of each financial year to prepare for actual commission clawback which may occur subsequently within the indemnified period. The corresponding actual clawback occurred and borne by our Group in 2007, 2008 and 2009 which relates to revenue generated from the previous year, was approximately HK\$3.3 million, HK\$4.3 million and HK\$6.7 million respectively.

As at 31 December 2009, our Group had estimated commission clawback of approximately HK\$5.9 million to account for the probable commission clawback in relation to the business accomplished and indemnified by our Group in the years prior to 31 December 2009.

The commission clawback for the four years ended 31 December 2006, 2007, 2008 and 2009 is summarised as below.

	Year ended 31 December			
	2006	2007	2008	2009
Estimated clawback for a particular year relates to revenue generated from previous years:				
Revenue from Regular-savings ILAS (HK\$' million) . . . . .	377.7	633.9	552.9	451.6
Estimated clawback at the end of financial year (HK\$' million) . . . . .	4.1	5.1	8.0	5.9
Estimated clawback-to-revenue ratio (%) . . . . .	1.1%	0.8%	1.4%	1.3%
Actual clawback occurred in the next financial year: <sup>(1)</sup>				
Actual clawback borne by our Group in relation to the revenue from Regular-savings ILAS (HK\$' million) . . . . .	3.3	4.3	6.7	N/A
Actual clawback borne by Consultants in relation to the revenue from Regular-savings ILAS (HK\$' million) <sup>(2)</sup> . . . . .	4.6	6.5	9.1	N/A

*Notes:*

- (1) The actual clawback for a particular year relates to revenue generated from previous years. Any difference between the estimated and actual commission clawback would be adjusted in the estimation of commission clawback recognised to the statement of comprehensive income in the next year. The amounts in the above table represent actual clawback occurred in 2007, 2008 and 2009, which relates to revenue generated on or before 31 December 2006, 31 December 2007 and 31 December 2008, respectively.
- (2) The actual clawback borne by the Consultants is calculated on a similar basis as the clawback charged by the Product Issuers as mentioned above. The actual clawback borne by the Consultants would not be accounted for as our Group's expenses and would be offset against the commission expense payable to the Consultants. In the event that the contractual relationship between CFS and the Consultants has been terminated, the commission clawback would be accounted for as a receivable from the Consultants by our Group.

Our Directors believe that our Group has objectively estimated the extent and the possibility of occurrence of commission clawback and the amount of estimated commission clawback has been prudently, consistently and fairly reflected in the financial statements.

(ii) Conventional and general insurance business

For the three years ended 31 December 2007, 2008 and 2009, the revenue of our Group attributable to one-off brokerage commission income and recurring fee income derived from the sale of general and conventional insurance products amounted to approximately HK\$1.7 million, HK\$0.4 million and HK\$3.4 million, representing approximately 0.27%, 0.07% and 0.74% of our Group's total revenue respectively. The one-off brokerage commission income and recurring fee income are

## BUSINESS

calculated as a percentage of the premium of each policy and are usually receivable from the Product Issuers on a monthly basis.

### (iii) MPF schemes business

For the three years ended 31 December 2007, 2008 and 2009, the revenue of our Group attributable to brokerage commission income and recurring fee income derived from the sale of MPF schemes amounted to HK\$0.5 million, HK\$0.9 million and HK\$0.6 million respectively, representing approximately 0.07%, 0.17% and 0.12% of our Group's total revenue respectively. The brokerage commission income and recurring fee income are calculated as a percentage of the asset value of the MPF schemes and are usually receivable from the MPF Providers on a monthly basis. Our Group recognises the income upon the commencement of the respective MPF scheme.

## OUR COMPETITIVE ADVANTAGES

### The largest number of consultants licensed to market ILAS in Hong Kong

Since the Consultants are the major income contributor of our Group, our success relies to a significant extent on the growth in the number of Consultants in the recent years, as shown below:

	As at 31 December						CAGR 2004-2009	As at the Latest Practicable Date
	2004	2005	2006	2007	2008	2009		
Consultants .....	348	534	831	959	1,127	1,041	24.5%	1,023

As at 30 April 2010, being the latest practicable date for ascertaining the total number of companies and consultants registered with HKCIB, there were 551 companies and 7,696 consultants registered with (i) IA or (ii) PIBA and/or HKCIB in Hong Kong. PIBA and HKCIB are two insurance broker bodies approved by the IA. Among these companies and consultants, there were 382 companies and 6,626 consultants who were registered with (i) IA or (ii) PIBA and/or HKCIB and allowed to market ILAS. As at the Latest Practicable Date, our Group had 1,023 Consultants. As at 30 April 2010, being the latest practicable date for ascertaining the total number of Consultants eligible to market ILAS in Hong Kong, our Group had 1,065 Consultants representing approximately 16.1% of the total number of consultants eligible to market ILAS in Hong Kong. Our Group is ahead of the other competitors in terms of the number of consultants as shown below:

<u>Number of consultants allowed to market ILAS in Hong Kong as at 30 April 2010</u>	<u>Number of companies</u>
1-10 .....	275
11-20 .....	52
21-30 .....	16
31-40 .....	12
41-50 .....	5
51-100 .....	11
101-200 .....	7
201-300 .....	2
301-400 .....	1
401-1,000 .....	0
Over 1,000 <sup>(1)</sup> .....	1
<b>Total</b> .....	<b>382</b>

Note:

(1) CFS was the only company in this category as at 30 April 2010.

Sources: PIBA and HKCIB

---

## BUSINESS

---

Our large teams of Consultants would strengthen our sales and marketing channels and the variety background of the Consultants would assist penetration and promotion of our insurance products and MPF schemes to various target customers, which will improve public awareness and popularity of ILAS and other insurance products and MPF schemes.

Our Directors confirm that the aggregate commission paid to the five highest-paid Consultants for the three years ended 31 December 2007, 2008 and 2009 does not exceed 30% of the total commission paid during the relevant years.

### Quality, competence and independence of the Consultants

Our Directors believe that the trainings and development opportunities provided by our Group for the Consultants via the Development Model are instrumental for the Consultants to provide quality services to our customers.

The Consultants are well-educated with approximately 95.2% having tertiary education level or above and approximately 9.4% with post-graduate level as at Latest Practicable Date. The following table shows the details of education level of the Consultants:

	<u>Number of members with post-graduate qualification</u>	<u>Number of members with tertiary education qualification</u>	<u>Others</u>	<u>Total</u>
Consultants .....	96	878	49	1,023
Percentage of the total .....	9.4%	85.8%	4.8%	100%

All Consultants are registered with regulatory bodies and obtained relevant licence to perform their duties. They are registered as technical representatives with PIBA and a number of them are also registered as MPF individual intermediaries with MPFA. As at the Latest Practicable Date, the number of registrants with regulatory bodies are summarised below:

	<u>PIBA technical representative</u>	<u>Both PIBA technical representative and MPF individual intermediaries</u>
Total number of the Consultants in our Group .....	1,023	751
Percentage to the total number of the Consultants in our Group .....	100%	73.4%

Only Consultants properly registered as MPF individual intermediaries with MPFA are permitted to conduct MPF brokerage business. Our Directors confirm that those Consultants who engage in the MPF brokerage business are properly registered with MPFA and those Consultants who have not registered with MPFA cannot and have not conducted any MPF schemes brokerage business.

The fact that the Consultants representing CFS have no contractual relationship with any Product Issuers distinguishes an independent role of the Consultants as compared to the insurance agents. An insurance agent is engaged and commissioned directly by the authorised insurers to sell and market only products issued by those authorised insurers which the insurance agent is engaged with. Whereas, the Consultants' independence from the Product Issuers allow them to negotiate and arrange a variety of contracts of insurance and MPF schemes issued by unrestricted number of Product Issuers,

which in turn provides customers with a wider variety of products to choose from that better suit their needs.

### **The Development Model**

The Development Model provides a means for the Consultants and trainees to gain technical knowledge and improve customer management or interpersonal communication skills. In addition, the training and development enable the Consultants to further develop their career in insurance and MPF schemes brokerage industry.

The Development Model is a systematic training and development programme through which the Consultants and trainees are trained, monitored and educated in accordance with our Group's policies.

In addition, the Development Model educates the Consultants and trainees with the concept of organic growth which as a result, provides a wide range of knowledge to the Consultants.

(i) Professional development and training

Our Directors believe that the success of advisory services depends on the ability and competence of the Consultants (a) to understand the financial needs of customers; (b) to explore and identify the needs in various life stages of customers; (c) to give guidance in understanding the customers' objective; (d) to develop sound financial plans to satisfy customers' objective; (e) to select and recommend suitable financial tools to match customers' risks and returns expectations; (f) to implement the financial plans for the customers; and (g) to monitor and review regularly the performance of plans to the satisfaction of the customers. As such, a successful independent insurance broker needs to undergo a series of development processes in both technical knowledge and personal attitude.

In order to train up a successful independent insurance broker, our Group has developed a career development model for every new trainee, starting from his/her first day of joining our Group until he/she becomes a Consultant.

In general, a new trainee receives basic training on a full time basis to enable him/her to be a licensed person to carry out the insurance brokerage business. Our Group provides various tutorial classes and seminars and for different licensing examinations, in particular, IIQAS examination to be qualified as a registered PIBA technical representative of an insurance broker under the IA and the Mandatory Provident Fund Schemes Examination from the Vocational Training Council to be qualified as a registered MPF intermediary under MPFA. Further to that, our Group holds an accredited CPD core credit training seminar which satisfies the licensing requirements of the IA.

Our Group provides a series of training to enable the Consultants to serve the customers in an efficient way. Such series of training is divided into three levels, namely primary, secondary and tertiary.

In the primary level, a new trainee is required to undergo seven and a half days full time in-class training course. During the training course, he/she learns the insurance and MPF brokerage concepts, understands the operations of financial tools and enriches his/her interpersonal communication skills. In time, he/she will understand our Group's culture, mission and objective. At the end of this training course, he/she is required to sit for and pass an

examination. After a team is duly assigned, he/she will proceed to a practical training session consisting of a mentoring guidance program and a team development program. In the practical training session, the team leader as a mentor will frequently monitor the performance of the new member and his/her attitude to co-operate with other team members. Our Directors believe that individual mentoring is effective for the new member's future development as (a) the mentor can provide a tailor-made training program to meet the new member's character and talent; and (b) the training is inter-active which the new member can share the expertise and experience of the mentor.

To be qualified as a Consultant, the trainees are obligated to meet the prerequisites by (a) satisfying the training attendance requirement; (b) passing the internal training examination and performance assessment; and (c) obtaining the relevant licence issued by PIBA. Upon completion of the probation and after becoming a Consultant, each Consultant has his/her sole discretion to progress his/her career within our Group by either focusing on (a) developing leadership and management skills in preparation for building his/her own team of Consultants; or (b) developing business and services knowledge and managing his/her own portfolio of clients.

In the secondary level, our Group provides a series of self-development training and workshops for the Consultants. The training emphasises different inter-personal communication skills and various motivation methods, while the workshops focus on Emotional Quotient and Adversity Quotient developments to deal with pressures and adverse environment and crisis management. In addition, our Group has started to provide advanced training on insurance and MPF scheme brokerage related knowledge in order to enhance the knowledge and skills of the Consultants when dealing with customers.

Also, our Directors believe that ethic is important to the development of an independent insurance broker in the long run. The training and workshops are also aimed to build up a strong attitude and ethical sense of the Consultants for their future career development.

In the tertiary level, our Group arranges a series of workshops to assist a Consultant to further develop his/her career either as a principal Consultant or as a team leader. For the principal Consultant, our Group provides training on re-packing his/her overall skills and knowledge, with a purpose to allow him/her to achieve an effective and efficient insurance and MPF brokerage technique. For the team leader, our Group provides training on recruitment and staff selection techniques and human resources management. Special training will be on how to become a successful team leader, team management and coaching and counseling techniques.

In addition to the above in-house training, our Group also encourages all staff and Consultants to participate in professional training such as the CFP accreditation. For example, our Group has launched an educational sponsorship program which the staff/Consultant will be partially reimbursed the course fees upon their successful completion of the course.

#### (ii) Mentoring efforts

Our Directors believe that mentoring is a well established tool used by forward-thinking learning organisations and managers and that, a mentor is an enabler who fosters independent thinking and development of problem-solving skills. The basic aim of mentoring is the establishment of a quality and time-effective relationship that contributes to career development. The mentor encourages the mentee to take a proactive role during his/her career development. The mentor will provide support and assist with the planning of work and career

---

## BUSINESS

---

development paths. The mentor helps the mentee to gain exposure and experience to the key work tasks, skills and the relevant task outcome expected of an independent insurance broker in the insurance and MPF brokerage business. Senior members of Consultants have been taking active part in mentoring for junior members of Consultants.

### (iii) Organic growth

In line with the progress of the Development Model, each team of the Consultants becomes self-sustained and works independently in a way similar to a profit centre. Each team of the Consultants builds up its own team spirits and sub-cultures, and endeavours to contribute income to our Group. When a team of the Consultants works for a period of time, a new organic team of the Consultants may be built up. Our Directors believe that this organic structure gives vitality to the Development Model.

The team leaders regularly meet and share the experience among themselves. Teams of the Consultants as a whole enhance our Group's objectives and harmony. Therefore, each team of the Consultants added together would create a synergy effect to the benefits of our Group. Our Directors believe that the success of the Development Model is crucial to the future development of our Group.

### Young and experienced management

The management team consists of our executive Directors and senior management. They are young (on average 39 years old), and dedicated. Most of the management are familiar in various aspects of the insurance brokerage business, such as strategic formulation, sales and marketing, finance and accounting, legal and compliance, customer relationship handling and information technology, with over ten years' experience. Ms. Fong, the chief executive officer, has received "Benchmark Most Extraordinary Women in Finance 2009" Award by the Benchmark magazine in May 2009.

### Stable senior members of the Consultants

The turnover rates of the Consultants and trainees of our Group are summarised as below:

	Year					
	2004	2005	2006	2007	2008	2009
Senior members . . . . .	4.5%	0.0%	0.0%	0.0%	0.9%	4.5%
Intermediary members . . . . .	7.7%	3.2%	1.4%	3.7%	5.9%	13.3%
Junior members (including trainees) . . . . .	33.1%	41.6%	35.3%	37.7%	40.2%	52.9%

As at the Latest Practicable Date, 136, 362 and 525 Consultants were classified as senior, intermediary and junior members respectively.

The increase in turnover rate of the Consultants in 2009 is mainly attributable to the unfavorable business performance in the teams of the Consultants as a result of the global economic downturn occurred in the fourth quarter of 2008 and the aftermath in 2009. In bid to uphold its overall productivity, our Group has implemented various measures to consolidate the teams of the Consultants and our Group experienced a moderate drop by 7.6% in the total number of the Consultants as at 31 December 2009 as compared with that as at 31 December 2008.

Senior members include deputy director, vice president, associate director and assistant vice president. Intermediary members include assistant associate directors, relationship manager, chief

---

## BUSINESS

---

wealth management advisor and principal consultant. Junior members include senior consultant, senior wealth management advisor, consultant, wealth management advisor and consultant trainee.

The turnover rate of junior members is relatively high. Our Directors consider that it is reasonable and normal due to the fact that our Group provided a series of training to the junior members and required them to satisfy various targets as a way of screening capable and stable Consultants. The turnover rate of senior members remained at a relatively low level for the six years ended 31 December 2009. Our Directors believe that it is an important factor for the continuous success of our Group and the result of stringent screening for the junior members and the consolidation of the intermediate members of the Consultants.

For the six years ended 31 December 2009, the turnover rate of senior members was considered to be low. Only one senior member left in 2004, 2008 and in 2010 up to the Latest Practicable Date. No senior member left our Group in 2005 and 2007, and 6 left in 2009. Our Directors expected that such low turnover rate will continue in the near future. The senior members, which comprised 136 members as at the Latest Practicable Date, are those in the position of deputy directors, vice presidents, associate directors and assistant vice presidents. The senior members are not employees of our Group.

### **Relationship with Product Issuers**

As at the Latest Practicable Date, our Group had built up a network with not less than 12 ILAS Issuers and seven MPF Providers and certain other Product Issuers, and formed strategic partnerships in promotion, marketing and sale of insurance products and MPF schemes. Our Group has co-operated with the top five Product Issuers for over five to nine years. Each of our top five Product Issuers issues ILAS themselves. Four of our top five Product Issuers are Zurich International Life Limited, Friends Provident International Limited, Standard Life (Asia) Limited and Generali International Limited.

The top five ILAS Issuers of our Group, in terms of commission income, accounted for approximately 98.5%, 96.9% and 97.1% respectively of our Group's revenue for the three years ended 31 December 2007, 2008 and 2009. To the best knowledge of our Directors, it is estimated that our Group accounted for as high as 30% of the ILAS business of the insurers among the major ILAS Issuers of our Group in 2009 based on the total amount of annual premium of our major ILAS Issuers on new business in 2009 as disclosed in the website of OCI. The largest ILAS Issuer of our Group, in terms of commission income, accounted for approximately 50.9%, 48.2% and 43.7% respectively of our Group's revenue for the three years ended 31 December 2007, 2008 and 2009. We therefore are reliant on a few international ILAS Issuers, who are independent of us, for a substantial portion of our total revenue. Our Directors consider that the concentration of Product Issuers is common across the insurance brokerage industry. For further details of our Group's risk of concentration of ILAS Issuers for commission income, please refer to the paragraph headed "We rely on our top five ILAS Issuers for a significant portion of our revenue, and we anticipate such dependence to continue in the near future" in the section headed "Risk factors" in this prospectus.

None of our Directors, their respective associates or any Shareholders holding more than 5% of the issued share capital of our Company held any interest in the five largest ILAS Issuers of our Group during the Track Record Period.

In order to improve communication with the Product Issuers, our Group has established a business processing department to monitor the application process of the insurance products by

---

## BUSINESS

---

reviewing the relevant information and documents to be submitted to the Product Issuers with the aim of ensuring the accuracy and completeness of each application.

Because of the long established business relationship with various ILAS Issuers, our Directors believe that our Group is in a competitive position to (i) provide a variety of choices to satisfy customers' needs; (ii) negotiate for the benefit of the customers regarding the pricing and quality of services provided by the insurance issuers; and (iii) timely obtain an update on the development of ILAS, conventional and general insurance and MPF market.

### **Variety of ILAS, general and conventional insurance products and MPF schemes to satisfy customers' needs**

Unlike an insurance agent employed by an authorised insurer who can only negotiate and arrange insurance products developed by that particular authorised insurer, an insurance broker is authorised to negotiate and arrange insurance products developed by any authorised insurer. As such, in general, an insurance broker can offer a wider range of products.

As at the Latest Practicable Date, our Group had business contracts with 12 ILAS Issuers and seven MPF Providers. Our Directors believe that with the large number of the Consultants, our Group can easily access different products to meet customers' need if necessary and Product Issuers generally are interested in offering various products to our Group. With a wide range of ILAS, insurance products and MPF schemes with different characteristics in place, our Directors believe that most of the needs and concerns of our potential customers can be properly addressed and resolved.

### **Brand name recognition in insurance brokerage industry**

Our Directors are of the view that a strong reputable brand name can facilitate the sale and marketing of the products of our Group. Our Group proactively participates in charitable events and/or through advertisements in magazines to enhance the public awareness of our brand name. Our Group will also promote our expertise in the insurance and MPF schemes brokerage industry through participating in trade exhibitions in Hong Kong as well as organising regular seminars and training for our customers.

Since our establishment, we have received numerous awards as a recognition of our past achievement, including, among others, the "Hong Kong's Best Company for Financial Planning Excellence (Independent Financial Advisory industry sector)" by South China Morning Post IFPHK for the years 2007 to 2009; "Best Employers in Hong Kong 2007" and "Best Employers in Hong Kong 2009" by Hewitt Associates and the South China Morning Post and "Best Employers in Asia 2009" by Hewitt Associates in partnership with The Wall Street Journal Asia.

### **Long established and comprehensive internal control system**

With the aim of developing and strengthening our compliance and internal control mechanisms, our Group has established and implemented risk management and internal control systems, policies and procedures, with reference to the requirements of the PIBA and the OCI, which include, among others, (i) compliance program to ensure suitability of advice rendered to customers and to develop policies and procedures for guiding the Consultants in providing advices to customers, for related education for the Consultants, for collection, retention and update of customer information including financial situation, investment experience and investment objectives, and for analysis to be performed



---

## BUSINESS

---

to support advice given to customers etc.; (ii) control and approval procedures for advertising and promotional materials before release to the public; (iii) requirements and mechanisms for prompt delivery of insurance policies to customers; (iv) ensuring our Company's compliance with all applicable legal and regulatory requirements as well as with our Company's own internal policies and procedures by establishing an effective legal and compliance department; and (v) objectively examining, evaluating and reporting on the accuracy, effectiveness and efficiency of our Company's internal control system by engaging independent external audit firms to perform internal audit functions on a regular basis. Based on the recommendations and findings from the internal audit exercise and occasional internal control review, our Group enhances the internal control system continuously to ensure compliance with relevant legal and regulatory requirement.

Our Group has recruited an in-house qualified lawyer to supervise the legal and compliance department to monitor internal control and legal and compliance issue. Our Directors confirm that no material internal control or compliance discrepancies were noted and neither judgment, verdict nor any form of sanction has been adversely entered or made against our Group by the relevant regulatory authorities and courts regarding mis-selling of products or any other regulatory matters since establishment of CFS in March 1993.

Our Group has engaged a firm of certified public accountants, namely Messrs. C.W. Fan & Co., to perform an internal control review on our Group's internal control system for the purpose of the Listing. According to the internal control review report prepared by the said firm of certified public accountants, the following measures are recommended to further enhance the effectiveness of internal control of CFS: (i) to prepare for formal narrative procedure manual for each department of CFS to supplement the flow charts currently approved and adopted by each department; (ii) to properly document the evidence of review and approval of certain accounting reports; (iii) to update the authorised signatory list with the banks of CFS; (iv) to strengthen the reviewing procedure over bank reconciliation statements to avoid manual mistakes; (v) to well document and review the petty cash count and the fixed asset count; (vi) to reconcile periodically the fixed assets registers of the finance and accounts department with the administrative department and information technology department; (vii) to review the status of the Product Issuers regularly; (viii) to appoint a compliance officer in relation to the Listing and prepare for listing compliance manual; (ix) to ensure the adopted procurement policy to be properly executed; and (x) to properly document the salaries of certain directors of CFS. Messrs. C.W. Fan & Co. has been established since January 2006 and has performed internal control review exercises for more than ten listed or non-listed companies in Hong Kong, of which not less than five relate to listing exercises in Hong Kong. Furthermore, the officer-in-charge of Messrs. C.W. Fan & Co., who is responsible for the abovementioned internal control review exercise of our Group, is a practising Certified Public Accountant and has been in the accounting profession for about ten years. Based on the above and the Sponsor's interview and discussions with Messrs. C.W. Fan & Co. regarding, among others, (i) Messrs. C.W. Fan & Co. and its staff's relevant experience in internal control review and professional qualifications; and (ii) the methodology, guidelines/standards and assumptions adopted for the purpose of our Group's internal control review, the Sponsor considers that Messrs. C.W. Fan & Co. is qualified and experienced to carry out the internal control review of our Group in a professional manner.

As discussed in the said internal control review report, notwithstanding that the implementation of the above measures can further enhance the internal control of CFS, the said firm of certified public accountants did not identify any significant weakness that may indicate the control system of CFS to be out of place or ineffective in providing reasonable assurance against material misstatement or loss

---

## BUSINESS

---

and did not identify any reason to believe that the internal control system of the CFS is ineffective in ensuring maintenance of proper accounting records, provision of reliable financial information or compliance with relevant legislation and regulations.

Save for item (i), CFS has implemented all the remedies above. Our Group will pay a continuous effort to update and review item (i) before and after the Listing as this remedy requires more time to be implemented.

### *Internal control measures consistent with the requirements of PIBA in relation to the Consultants*

In addition to the long established and comprehensive internal control system as described under the paragraph above, our Group has implemented a series of internal control measures which aims to ensure that the Consultants properly conduct the business on behalf of our Group, and details of which are summarised as follows (all these measures have been in place before the Track Record Period and implemented throughout the Track Record Period and thereafter as at the Latest Practicable Date and would continue to be implemented thereafter except as otherwise indicated):

(i) Training and compliance support provided to the Consultants and the trainees

Through the Development Model, our Group provides trainees with a compulsory seven and a half days full time in-class training course to enable them to acquire the necessary knowledge for carrying out the insurance brokerage business, which focuses on, among others, the code of practice in conducting the business, in particular, the proper selling procedures and avoidance of mis-selling, the appropriate behaviour and restrictions when approaching the customers through telephone calls, objection handling techniques and after sales services, new business engagement procedures and professional knowledge on our products and documentation methodology. Further details regarding the Development Model is set out under the paragraph headed “The Development Model” in this section. As an ongoing support to the Consultants, CFS regularly provides training support in respect of arranging and providing CPD courses and general training. Such measures can equip the Consultants with necessary knowledge, skills and support for acting properly on behalf of our Group.

(ii) Requirements for all Consultants to obtain relevant licence

As described under the paragraph headed “Quality, competence and independence of the Consultants” above in this section, all Consultants are required to be registered with regulatory bodies and obtained relevant licence to perform their duties. Our consultancy administration department has been established in April 2008 (the same task was performed by our legal and compliance department and our human resources department prior to April 2008) to keep track of the licensing details of the Consultants to ensure that the Consultants have the appropriate licences when dealing with our customers. All Consultants have contractually undertaken under their respective contracts for services entered into with CFS that they will only carry on their activities on behalf of our Group for which they are licensed. There are also internal control mechanisms in place whereby our back office staff, who are independent of the Consultants, will check the validity of the Consultants’ relevant licences while processing each product purchase application before submitting the same to the Product Issuers through our Group, and ensure that the Consultants have renewed their relevant licences upon expiry.

(iii) Documentation to ensure suitability of products and conveyance of important information

CFS has designed a Needs Analysis Form to assist the Consultants in conducting the financial needs analysis on customers, understanding the financial needs of customers and gathering information regarding and making recommendations suitable for the needs of the customers. Every new application for ILAS must be accompanied by such Needs Analysis Form. From September 2007 onwards, CFS has enhanced a standardised work flow undertaken by every Consultants to ensure that customers purchase ILAS which are suitable for them and consistent with their requirements and risk appetite, which involves (a) the completion of the Needs Analysis Form by the Consultants in hand-written form as acknowledged by the customers to reflect suitability of ILAS in terms of the customers' objectives, affordability and age, with indication of customers' risk tolerance level to ensure the risk level of the products match with the customers' risk profile; (b) where suitability may be in issue such as where a customer chooses to proceed with portfolios of underlying funds of risk levels inconsistent with the customer's risk profile or where the customer chooses ILAS with maturity beyond his/her expected retirement age etc., the requirement for customers' instructions and explanations in hand-written format counter-signed by customers in the Needs Analysis Form for CFS to proceed with such application; and (c) the execution of a form of applicant's declaration to confirm the customers' understanding and acceptance of the highlighted features of the product. The documentation involved in the work flow is designed in accordance with the requirements which are available from the relevant regulatory authorities and is required to be explained and completed together by the Consultants and our customers at the time when sales is conducted. Details of the above work flow are set out under the paragraph headed "Our customers" in this section.

(iv) Proper new customer due diligence and acceptance procedures

For each new customer of CFS, the Consultants are required to perform "know your customer" due diligence checking to understand the customers' background information and assess his/her income and risk tolerance level. "Know your customer" due diligence involves gathering customers' information such as name, date of birth, identification document number, address, education level, occupation, name of employer and position. The Consultants will also go through with the customers a suitability questionnaire whereby the customers' risk tolerance level will be analysed. Such information will be documented in the application documentations including in the Needs Analysis Form and will be signed by the customers for confirmation.

(v) Follow-up verification performed by independent staff

The completed due diligence and application documentations are required to be checked and approved by the business processing department of CFS before submission by us to the Product Issuers for processing. Documents of the customers are kept for at least seven years.

The business processing department of CFS also reviews each Needs Analysis Form based on a guideline designed by the legal and compliance department. Should there be suitability issues without client's instructions to proceed as aforesaid, the application may be rejected.

In order to reduce the possibility of any mis-communication between potential customers and the Consultants or any mis-understanding by the potential customers, we seek to conduct a follow-up telephone check with all customers is performed after each new application for ILAS is received and being processed. All follow-up telephone checks are recorded and undertaken

---

## BUSINESS

---

under a standardised procedure designed by the legal and compliance department where we seek further confirmation from the customers regarding their understanding of certain important features of the products which they purchased.

For the avoidance of any possible misunderstanding from our customers' perspective in distinguishing CFS from CAM, which certain Consultants also carry on business under the Trademarks, (i) CFS has issued a directive to remind the Consultants to inform the customers during the sales process (usually at the instance of about conducting the financial needs analysis on customers which is an early stage of the sales process) that they are representing CFS and using their licences when arranging for products offered by CFS for customers; and (ii) during the follow-up telephone check with our customers as described above, the staff also reminds our customers that the transaction involved an insurance product arranged by CFS, which is an insurance intermediary licensed by PIBA. With the above internal control procedures in place, our Directors consider that the customers would be able to differentiate which company the particular Consultants are acting for. Our Directors understand that CAM also has similar measures in place in relation to the directives and reminders to customers.

Both CFS and CAM have set out in the contract for services with their Consultants the obligation for them to obtain all licences necessary for the services that they provide. There exists stringent internal controls by CFS and CAM that only applications arranged by properly licensed Consultants will be accepted for further processing. Otherwise, the applications will be rejected.

Our Group also has a well-established complaint handling procedure which allows us to monitor any possible improper conduct or acts by the Consultants, details of which are set out under the paragraph headed "Complaint handling procedures of our Group" in this section.

Furthermore, our legal and compliance department regularly reviews application documentations submitted by the Consultants, general marketing materials prepared or processed by our corporate communications department and product-specific marketing materials prepared by various insurance companies.

### ***Internal control measures in relation to the Consultants acting for CAM***

Our Group has also implemented the following internal control measures to ensure that the Consultants acting for CAM properly conduct their respective businesses.

As disclosed in the section headed "Relationship with the Controlling Shareholders and connected transactions" in this prospectus, most of the Consultants also act on behalf of CAM. When acting on behalf of CAM, the Consultants are required to carry out their activities under licences granted by the SFC. Those Consultants acting for CAM must be licensed by the SFC to carry out type 1 (dealing in securities) and/or type 4 (advising on securities) regulated activities under the SFO, whereas the Consultants acting for CFS must be licensed by PIBA. CAM has confirmed to us that it has similarly implemented stringent internal control procedures in line with the SFC's requirements when dealing with customers regarding CAM's products, which include but not limited to "know your customer" due diligence, understanding of risk profiles and needs of customers, ensuring suitability of products for customers, control of marketing materials, maintenance of complaints handling procedures, verification by independent staff and regular reviews by compliance professionals. The aforementioned internal control procedures have been in place since CAM started its regulated activities under the SFO in 2003 and there has been continuous update and strengthening of its internal

---

## BUSINESS

---

control procedures. Besides, those Consultants who also act for CAM have also undertaken through their respective contracts for services entered into with CAM that they will only carry out their type 1 (dealing in securities) and/or type 4 (advising on securities) regulated activities on behalf of CAM after their relevant licences have been granted by the SFC. There are also internal control mechanisms in place whereby CAM's back office staff, who are independent from the Consultants, will check the validity of the Consultants' SFC licence while processing each product purchase application received by CAM. When a customer requests for or needs products that a particular Consultant is not licensed for, that particular Consultant will cease to serve that customer. CFS and CAM have set out in (i) the contracts for services with their Consultants the scope of services and obligation to obtain all licences necessary for the services they can provide such that the Consultants will clearly understand their roles before they commence the business; and (ii) the compliance manual and directives to require their respective Consultants to provide customers with adequate and appropriate information about their business; therefore, our Directors believe that the Consultants who are not licensed for a particular product will refer the customers to other Consultants with proper licences under the said internal control measures. Moreover, commissions for products negotiated or arranged by the Consultants acting on behalf of CAM and CFS are calculated, processed and paid by CAM and CFS themselves respectively.

Furthermore, if there is any misconduct by the Consultants when representing CAM, there exists liaison mechanism whereby our Directors will seek to understand the situation by discussion with the management of CAM, and to make announcements to the public as and when appropriate to clarify the situation in order to manage reputation risk. In the event that complaint cases arising from Consultants' misconducts when representing CAM are raised to CFS staff, CFS will refer such cases to CAM's customer service staff for their further handling. In addition, the directors of CAM have agreed with our Group to provide our Group its internal control review reports on a quarterly basis. CAM has conducted such reviews for about three years. Such internal control review reports contain, among others, findings and recommendations on the CAM's control procedures, which our management including Mr. Wong, Ms. Fong and Mr. Mak have reviewed and will review in detail. During the quarterly reviews, our management will also review, among others, the compliance record (in respect of investigations and disciplinary actions against CAM and the Consultants acting on behalf of CAM by the regulators) and complaint logs of CAM and newspaper/media clippings of adverse comments or incidents in relation to CAM. CAM will also alert us on any exceptional incident reported in the media which relates to CAM.

Our Directors have confirmed that there has been no occasion where any Consultants' breaches of relevant rules and regulations in their capacity as representatives of CAM or using the Trademarks and corresponding sanctions against them by the relevant regulatory authorities have caused any material adverse impacts on our Group's and CAM's business operation, financial position and reputation during the Track Record Period and up to the Latest Practicable Date. In addition, each of CFG and CAM has jointly and severally agreed that it will indemnify and at all times keep all and each of the members of our Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of our Group may incur in connection with or sustain from any complaints, claims or proceedings lodged by any person in relation to the business undertaken or carried on by CFG and/or CAM. We will after the Listing disclose in our annual reports any material adverse findings of the internal control reports, compliance records and breach of rules and regulations of our Group and the Consultants engaged by CAM and such other matter of the internal control reports that, in the opinion of our Board, needs to be brought to the attention of our Shareholders.

**OUR BUSINESS STRATEGIES**

The corporate mission of our Group is to establish the largest distribution network of insurance products and MPF schemes with general recognition of being independent, professional and value adding to general public in Hong Kong.

Having considered the market potential of the insurance and MPF schemes brokerage industry and evaluated our Group's existing market position and strengths, our Group intends to achieve our business objectives and further growth through implementing the following strategic plans:

**Enhancement of quality of the Consultants**

Our Group is committed to enhance the professionalism of the Consultants and has been continuously strengthening the training department in order to upgrade and enhance the quality of the Consultants. The Consultants are required to participate in the in-house, tailor-made, job-related and continuous training under our Group's Development Model and to attend other professional and continuous training as required by the IA and MPFA to fulfill their respective licences registration requirements. In addition, our Group strongly encourages and supports the Consultants to obtain internationally recognised qualifications, such as CFP. Our Group also from time to time recruits quality candidates to join the teams of Consultants.

Our Group has implemented the following to help enhance the quality of the Consultants:

(i) continuous professional training

Our Group provides basic training to enable a trainee to be a technical representative with PIBA to carry on the business. Also, our Group holds various accredited CPD core credit training seminars which satisfy the licensing requirements of the IA and the MPFA. After the trainee is duly registered with the regulatory bodies, our Group continues to provide professional training to develop the career of the Consultants in the insurance and MPF advisory industry. Further details are set out under the paragraph headed "The Development Model" in this section.

(ii) subsidy on recognised professional qualification courses

In addition to the in-house continuing professional training, our Group recommends all staff and Consultants to participate in various trainings, both academic and technical, offered by other professional institutions, in order to advance their knowledge in an international context. To support our staff and the Consultants continuous development function, our Group has launched an educational sponsorship program whereby our staff and the Consultants will be partially reimbursed the costs or fees of course upon their successful completion of the course.

(iii) recruitment of Consultants from other professions and countries

Our Group aims to recruit the Consultants from other professions and locations. Other professions may include investment advisers and those in accounting fields. Our Group recruits Consultants from the PRC to conduct the business in Hong Kong. Our Directors believe that (a) these professionals have received specialised training in their respective professions and usually have basic knowledge on ILAS; and (b) the Consultants come from different locations can enhance international exposure in the Consultants and then strengthen the advisory

---

## BUSINESS

---

capability of the Consultants with stronger international insight. More importantly, the professions and Consultants from other locations may have their own customer base that our Group may contact which can enrich the customer mix and increase business opportunities of our Group.

### **Expansion of the size of the teams of the Consultants**

Our Group continues to leverage on the strengths to boost the growth of the teams of Consultants through:

- (i) organic growth using the Development Model;
- (ii) recruitment of insurance brokers from different market sectors and other countries; and
- (iii) growth by acquisition of other industry players.

### **Expansion and promotion of ILAS, MPF schemes and other insurance business**

Our Directors are of the view that there is market potential for growth in the ILAS business. Therefore our Group will continue to source a variety of ILAS and to inject further resources to improve our promotional efforts and to strengthen our relationship with ILAS Providers.

In view of the coming fundamental change in MPF transfer policy in Hong Kong expected to be made by the government in or around 2011 as mentioned under the paragraph headed “MPF business” in the section headed “Industry overview” in this prospectus, our Directors believe that our Group has a strong competitive advantage in MPF business with (i) our large teams of Consultants which can provide independent, professional and personalised services to general employees in Hong Kong; and (ii) our large individual customer base.

To procure successful expansion, our Group is encouraging the Consultants to obtain the relevant licences for MPF business and providing specific training courses. In the meantime, our Group continues to source competitive MPF schemes and strengthen relationship with MPF Providers. Our Group will input additional resources and supports to expand MPF business in near future.

Furthermore, our Directors consider that brokerage channels for distribution of other insurance products would play more important role in Hong Kong in future and such insurance products have sustainable growth in Hong Kong. Details of its recent performance are set out in the section headed “Industry overview” in this prospectus. Being one of the largest insurance brokers in Hong Kong, our Group aims to encourage the Product Issuers to develop brokerage channels for distribution of other insurance products by specifically strengthen its business development effort in distribution of other insurance products. Our Group has established business relationship with various general and long term Products Issuers. The Consultants have equipped with relevant insurance brokerage licences for distribution and arrangement of relevant contracts of insurance in Hong Kong. Details of licensing situation of the Consultants are set out in the section headed “Regulatory framework” in this prospectus.

Our Group has no current plan to engage in any regulated activities under the SFO and direct investment business.

**Exploration of merger and acquisition opportunities and business collaboration with well-established companies**

We will pursue merger and acquisition opportunities continuously within the insurance brokerage industry in Hong Kong in order to further expand our business. Our Directors consider that they maintain good relationships with other key players in the insurance and MPF schemes brokerage industry and have had access to up-to-date information regarding potential targets. We will seek targets that have the potential to strengthen our teams of Consultants and complement our existing sales and distribution network or our business model. We believe that successful acquisitions will bring synergies to our Group and enhance our Company's value to our Shareholders. There was no target identified and no definitive agreement had been entered into as at the Latest Practicable Date.

Our Directors believe that there are a lot of opportunities to boost the business of our Group by way of business collaboration with well-established companies. For instance, our Group has recently established business collaboration with a well-known mortgage referral service provider for mortgage referral business. Given the similarity in the needs of customers of mortgage arrangement and our products, our Directors consider that by collaboration for mortgage referral business, CFS is able to explore a potential gateway to customers that will likely be interested in the insurance and MPF schemes brokerage services and represents a good opportunity for our Group to promote our business and expand our customer base. For instance, customers who have recently purchased properties may have insurance needs to cover property-related risk, and some of them may have recently be married or given birth and may need to formulate financial plans through ILAS or other insurance products. Besides, existing customers may also be interested in mortgage-related matters. This will help enhancing our relationship with existing clients and lead to opportunities for new clients. Our Directors have confirmed that none of the connected persons is involved in the aforesaid business collaboration.

Our Directors also believe that such collaboration would increase visibility of the brand of our Group in other industries and enhance the confidence of our customers in our Group and possibilities of business solicitation.

**Addition and extension of further services and distribution channels**

- (i) On-line services and value adding applications to the customers and the Consultants

Our Directors understand that on-line channel for the customers are increasingly important and popular in enhancing the competitiveness of our Group in the market. Thus, our Group has planned to strengthen application of our Group's website and develop a comprehensive information management systems and platform in several stages in coming years on which customers and the Consultants can perform various functions and applications.

Having this new system and more powerful website in place, our Directors believe that the relationship among customers, Consultants and our Group would be much closer and thus business opportunities and services would increase to a great extent. In addition, the response of our Group to market change would be much faster with such comprehensive systems to support numerous management decision, communicate closely and timely with customers, and execute timely and accurately our Group's decision.

- (ii) E-marketing and direct-marketing

With the maturity of the overall systems and on-line applications, our Group aims to empower e-marketing and direct-marketing to enhance efficiency for distribution of standard



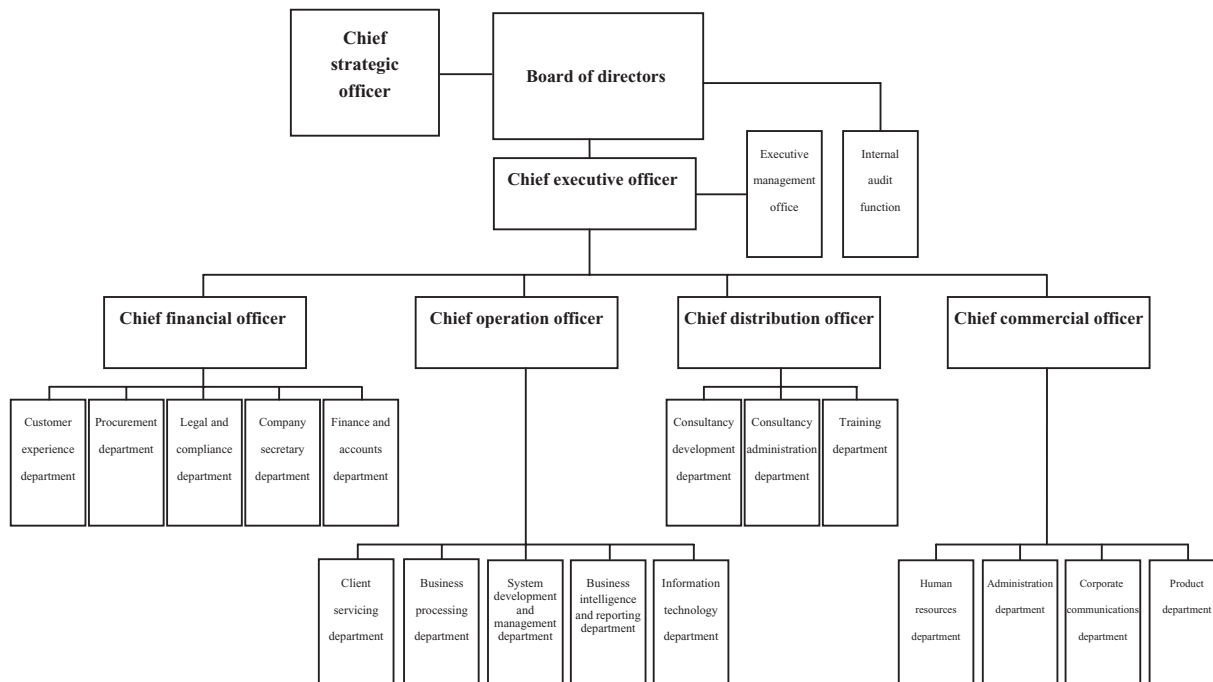
---

## BUSINESS

---

and general insurance products and MPF schemes in addition to face-to-face marketing channel of the Consultants. Such auxiliary channel may be tailor-made to accept the Consultants' specific requirement in bid to provide personalised services to the Consultants and customers.

### ORGANISATION STRUCTURE OF CFS



#### Administration department

The administration department is primarily responsible for providing administrative support and office management to our Group. As at the Latest Practicable Date, there were 14 staff in this department.

#### Business intelligence and reporting department

Business intelligence and reporting department supports our Group in the perspective of providing management reports, data mining and vendors management for system deliverable. As at the Latest Practicable Date, there were four staff in this department.

#### Business processing department

Business processing department supports our Group in the perspective of executing and processing new business applications. As at the Latest Practicable Date, there were seven staff in this department.

#### Client servicing department

Client servicing department is responsible for supporting our Group in the perspective of servicing customers' enquiries to both Consultants and our customers. As at the Latest Practicable Date, there were seven staff in this department. It is headed by a staff member of senior manager grade who has obtained the degree of Master of Business Administration and has passed the Insurance

---

## **BUSINESS**

---

Intermediaries Qualifying Examination (for principles and practice of insurance, long term insurance and general insurance) as well as MPF Intermediaries Examination.

### **Company secretary department**

The company secretary department is responsible for supporting our Group's documentation and secretarial matters. As at the Latest Practicable Date, there was one staff in this department.

### **Consultancy administration department**

The consultancy administration department supports our Group in the perspective of keeping track of licensing requirements and documentation and providing administrative support of human resources services for our Consultants. As at the Latest Practicable Date, there were 40 staff in this department.

It is headed by a staff member of senior manager grade, who has obtained the degree of Master of Science in Training and Human Resource Management, awarded the title of Life Underwriter Training Council Fellow by The American College and the Underwriters Association Hong Kong Ltd. and has completed Level 1 (Insurance fundamentals: life, annuities, and health) of Life Office Management Association Financial Services Education. He has also passed the Insurance Intermediaries Qualifying Examination (for investment-linked long term insurance and general insurance).

### **Consultancy development department**

The consultancy development department supports our Group in the perspective of coordination of matters in relation to the Consultants and recruitment of and designing incentive programs for the Consultants. As at the Latest Practicable Date, there were three staff in this department.

### **Corporate communications department**

Corporate communications department supports our Group in the perspective of promoting brand, arranging marketing activities and communicating with mass media. As at the Latest Practicable Date, there were three staff in this department.

### **Customer experience department**

The customer experience department is primarily responsible for facilitating good experience to customers when they lodge complaints with our Group and also investigating such complaints. As at the Latest Practicable Date, there was one staff in this department.

### **Executive management office**

The executive management office is primarily responsible for providing secretarial support to our Directors and senior management of our Group. As at the Latest Practicable Date, there were two staff in this department.

**Finance and accounts department**

The finance and accounts department supports our Group in the perspective of recording accounts, performing financial analysis, controlling budget, processing commission, arranging corporate finance and executing investment decisions. As at the Latest Practicable Date, there were 10 staff in this department.

**Human resources department**

The human resources department is primarily responsible for providing the functions of recruitment and selection, performance management, compensation and benefits, training and development and employee relations for our internal staff. As at the Latest Practicable Date, there were four staff in this department.

**Information technology department**

The information technology department is primarily responsible for the perspective of IT infrastructure, network communication, system operation and server maintenance to our Group. As at the Latest Practicable Date, there were eight staff in this department.

**Legal and compliance department**

The legal and compliance department supports our Group in the perspective of monitoring and implementing compliance policies, overseeing legal and regulatory matters and monitoring internal management procedures. As at the Latest Practicable Date, there were four staff in this department. It is headed by a Hong Kong-qualified solicitor, who has obtained the degree of Bachelor of Laws in December 1997, and the Postgraduate Certificate in Laws in June 1999 and practised as a solicitor in Hong Kong since September 2001. The staff members of the Department also include a manager who previously served as chief administrative executive of PIBA from February 2005 to July 2007, obtained a graduate diploma of insurance and is recognised as a Certified Insurance Professional and Fellow by the Australian and New Zealand Institute of Insurance and Finance.

**Procurement department**

The procurement department supports and controls our Group in the perspective of purchasing office supplies, services and equipment. As at the Latest Practicable Date, there were two staff in this department.

**Product department**

The product department supports our Group in the perspective of controlling and sourcing products for distribution, evaluating product features, providing product knowledge support to the Consultants and liaising with the Product Issuers of our Group. As at the Latest Practicable Date, there were four staff in this department.

**System development and management department**

The system development and management department is primarily responsible for providing system design and system development projects as well as providing program supports to our Group. As at the Latest Practicable Date, there were four staff in this department.

---

## BUSINESS

---

### Training department

The training department is primarily responsible for arranging and providing CPD and general training to the Consultants. As at the Latest Practicable Date, there were three staff in this department.

### CONSULTANTS

As at the Latest Practicable Date, the Consultants comprises 18 main teams and the heads of each team is responsible for managing his/her own team members, recruitment, team-based promotional events and team culture.

From CFS's perspective, the chief distribution officer of CFS ("CDO"), Mr. Shin Kin Man, is responsible for managing our relationships with the teams of Consultants, communicating the overall sales and marketing strategies of our Group to the Consultants and obtaining feedback from them. The three CFS departments managed by the CDO, namely, the consultancy administration department, the consultancy development department and the training department, are responsible for various support functions to the Consultants as described under the paragraph headed "Organisation structure of CFS" above in this section.

The legal and compliance department is responsible for managing and enforcing the regulatory and compliance framework for the Consultants.

### SALES AND MARKETING

Our Group had performed and organised the internal and external sales and marketing activities through the corporate communication department and the consultancy development department of our Group, an independent public relation firm and the Consultants. Our Directors believe that the combination of internal and external parties will help our Group to perform and organise the sales and marketing activities more effectively. Our internal marketing activities mainly represent sales incentive and promotional events offered to the Consultants. Our external marketing activities mainly represent corporate marketing documents, advertising and corporate marketing campaigns such as talks, seminars, etc.

	Year ended 31 December		
	2007	2008	2009
	HKS'000	HKS'000	HKS'000
Internal marketing activities .....	4,736	5,552	7,289
External marketing activities .....	12,787	14,626	4,147
	<u>17,523</u>	<u>20,178</u>	<u>11,436</u>

As at 31 December 2009, individual customers accounted for more than 99% of new generated business, while the corporate customers accounted for the remaining. In accordance with our Group's internal statistics, the percentage of new business sourced from direct marketing, referrals and recurring of existing customers are summarised as below.

	Year ended 31 December		
	2007	2008	2009
Direct marketing .....	18.9%	19.4%	18.3%
Referrals .....	38.9%	46.3%	47.4%
Recurring of existing customers .....	42.2%	34.3%	34.3%

---

## BUSINESS

---

As illustrated above, referrals and recurring of existing customers have been the main distribution channels of our Group over the past three years, which our Directors believe is an indication of a strong loyalty of our customers, being one of the key competitive advantages of our Group.

### **Sales and distribution channels**

The sales and marketing channels of the Consultants include seminars, exhibitions, and surveys. The client servicing department of our Group provides follow-up and administrative work. As at the Latest Practicable Date, there were 1,023 Consultants, including 13 deputy directors, one vice president, 117 associate directors, five assistant vice presidents, 130 assistant associate directors, 227 chief wealth management advisors, five principal consultants, 31 senior consultants, 205 senior wealth management advisors, 166 consultants, 98 wealth management advisors and 25 licensed trainees. The Consultants are divided into teams. Each deputy director, associate director and assistant associate director has his/her own team and team management. Mr. Shin Kin Man, the chief distribution officer of CFS, is responsible for the overall management of the Consultants. Our Group intends to develop the Consultants into a professional, young, energetic, well-educated and well-trained marketing team. As at the Latest Practicable Date, more than 95.2% of the team members had received tertiary education or above.

Since the Consultants are the major income provider of our Group, their productivity is crucial to the success of our Group. The productivity may be considered in terms of quality of service provided and quantity of business volume generated. In order to continuously enhance the productivity of the Consultants, our Group has established the consultancy development department, the consultancy administration department, the product department and the corporate operation division which are primarily responsible for the provision of full support to the Consultants, so as to allow the Consultants to carry out their duties more effectively and efficiently.

### **Promotion**

Our Group conducts a lot of promotional activities from time to time, including participating in public seminars, advertising on television, magazines and newspapers and publishing a free quarterly magazine “Independent Edge”.

In addition to the recurring promotional activities, our Directors promote our Group in various occasions, such as actively participating in the public or private events of various professionals and charity organisations. These indirect types of promotion are particularly important for building our corporate image. Such promotions have been recognised by external parties with numerous awards. Details of awards and recognitions are listed under the paragraph headed “Major awards and recognitions” in this section.

Furthermore, our Group is planning to establish alliances with organisations or companies whose customers may become potential customers of our Group.

With the Listing, our Directors consider that it is another breakthrough in promoting our Group to the general public. Our Directors also believe that the Listing will be definitely conducive to the further enhancement of our Group’s image and our onward development in the insurance and MPF schemes brokerage market in the future.

---

## BUSINESS

---

Individual teams of the Consultants have their marketing events, such as joining exhibitions, road shows and launching seminars. In addition, individual team conducts its own activities to support its marketing functions.

### **After-sale services**

After-sale services are performed by the Consultants and the client servicing department of our Group.

After-sale services are important to our Group as firstly, in accordance with our internal statistics, about 82% new business is generated or referred by the existing customers in 2009 and secondly, the corporate image can be firmly established in the customers' minds. Thus, after-sale services play a significant role in the future development of our Group.

As such, our Group has installed and been continuously enhancing the customer relationship management (the "CRM") system with a view to strengthening our relationship with customers.

Our CRM system keeps track of all customers information and their corresponding portfolio information as well as any service request launched by them. Through the web interface of our CRM system, Consultants and our customers can view their portfolios, valuation report and personal details. Consultants can also conveniently access the CRM system through our Group's intranet portal to ensure prompt response to our customers' requests or enquiries.

We have also established a customer experience department to handle any enquiries or complaints from our customers via telephone calls or e-mails.

### **Product due diligence and product research**

The product department of our Group conducts due diligence on new products arranged by our Group. They prepare due diligence reports and/or gather relevant information, and other relevant materials regarding products offered by the Product Issuers through our Group and the Consultants for product marketing and analysis. Further, product department also researches into features of different products and issues reports on products comparison for the benefits of Consultants.

Our Directors consider that quality function of product due diligence and product research enhances not only the business of our Group, but also the professional image of our Group to potential customers as well as existing customers.

## **OUR CUSTOMERS**

Our customers are policyholders whom the Consultants provide services to. Our Directors believe that it is the industry norm that the independent insurance brokers treat the policyholders as their customers. Our Group primarily provides advices to our customers through the Consultants as to the selection of suitable insurance products and/or MPF schemes which are provided by the Product Issuers to assist customers to achieve their needs. As an insurance broker, our Group is required under the ICO to act for the interest of policyholders and potential policyholders. Through provision of relevant advices, our Group is entitled to receive brokerage commission income from Product Issuers for business referrals and introductions as a result of arrangement of insurance products and/or MPF schemes to customers. Moreover, our Directors believe that it is the industry norm that commission is

---

## BUSINESS

---

paid by the Product Issuers to the brokers. From another point of view, the customers pay such commission to our Group indirectly as all such costs would be eventually deducted from the customers' contribution. Although Product Issuers are not treated as customers by our Group, we actually recorded accounts receivable and bear credit risk from the Product Issuers rather than the policyholders.

Our Directors have confirmed that, the five largest customers of our Group combined did not account for more than 2.5% of the total revenue of our Group in each of the three years ended 31 December 2007, 2008 and 2009.

The majority of the locations of the customers of our Group are in Hong Kong, which accounted for approximately 98.2% of total number of customers as at 31 December 2009, while the remaining insignificant portions come from all over the world including, but not limited to, expatriates working in Hong Kong and customers travelling to Hong Kong. All contracts with our customers were executed in Hong Kong.

Our Directors do not consider that the Hong Kong insurance market (especially for ILAS) and MPF market are saturated. Rather, such markets are considered to have potential in view of the following: (i) that the office premiums for non-investment-linked business in Hong Kong maintained continuous growth of approximately 5.0%, 7.4%, 9.2% and 10.7% for the four years ended 31 December 2006, 2007, 2008 and 2009; (ii) that the office premiums for investment-linked business grew at about 15.7% for the year ended 31 December 2009, recovering from a decline of 22.8% for the year ended 31 December 2008; (iii) that the new ILAS business in Hong Kong recorded a CAGR of approximately 34.6% from 2004 to 2008; (iv) that ILAS gained popularity over the past years considering the increasing demand of Hong Kong customers for higher returns on the insurance policies; and (v) increasing familiarity of Hong Kong customers to investment funds especially as more people become more concerned about maintenance of quality of living after retirement. For details, please refer to the section headed "Industry overview" in this prospectus. Details of our business strategies to achieve our business objectives and further growth are disclosed under the paragraph headed "Our business strategies" in this section.

Our Group does not engage and has no intention of engaging in any selling activities in the PRC. The Controlling Shareholders will establish the insurance brokerage business in the PRC, details of which are set out under the paragraph headed "Background of the Controlling Shareholders" in the section headed "Relationship with the Controlling Shareholders and connected transactions" in this prospectus. For the year ended 31 December 2009, only approximately 1.1% of customers of our Group came from the PRC. Considering the market potential in the insurance industry in Hong Kong, our Group considers customers from the PRC are only supplemental to our Group's business and no specific strategy is formulated to solicit new customers from the PRC. There exists stringent control whereby independent staff of CFS will ensure that there is documentary proof of entrance to Hong Kong by such PRC customers (such as entry records shown in such customers' entry permits) before processing applications from them. Our Group does not engage in any unauthorised cross-border sales operation.

Further, similar to other customers, our Group ensures compliance with all relevant laws and regulations in relation to these PRC customers by conducting "know your customer" due diligence and other measures mentioned under the paragraph headed "Long established and comprehensive internal control system" in this section, and in relation to anti-money laundering, CFS requires that payments for contribution by all customers including these PRC customers will only come through established

---

**BUSINESS**

---

banking system with accounts opened in the name of the customers with cheques, telegraph transfers or credit cards. Cash payments from our customers will not be accepted by our Group. These payments are paid to the relevant Product Issuers directly. Our Directors are aware of and confirm that our Group complies with all relevant rules and regulations, including the anti-money laundering regulations.

The table below shows the information of our Group as at 31 December 2009 as regards the percentage of the customers of our Group and their profile in terms of age and sex.

<u>Age</u>	<u>% of customers of a particular range of ages over the total number of customers</u>	<u>% of male of a particular range of ages over the total number of customers</u>	<u>% of female of a particular range of ages over the total number of customers</u>	<u>% of customers of a particular range of ages subscribing Regular-savings ILAS over the total number of that particular range of ages</u>	<u>% of customers of a particular range of ages subscribing Lump-sum savings ILAS over the total number of that particular range of ages</u>	<u>% of customers of a particular range of ages subscribing MPF schemes over the total number of customers of that particular range of ages</u>	<u>% of customers of a particular range of ages subscribing other insurance products over the total number of customers of that particular range of ages</u>
Corporate client . . .	1%			14%	0%	85%	1%
20 to < 25 . . . . .	5%	56%	44%	87%	0%	9%	4%
25 to < 30 . . . . .	21%	54%	46%	88%	1%	7%	4%
30 to < 35 . . . . .	22%	52%	48%	87%	3%	7%	3%
35 to < 40 . . . . .	17%	51%	49%	86%	6%	5%	3%
40 to < 45 . . . . .	13%	52%	48%	85%	8%	5%	2%
45 to < 50 . . . . .	10%	55%	45%	84%	10%	4%	2%
50 to < 55 . . . . .	6%	54%	46%	82%	13%	4%	1%
55 to < 60 . . . . .	3%	50%	50%	76%	18%	5%	1%
60 or above . . . . .	2%	53%	47%	60%	34%	3%	3%
% of total number of customers . . .	<b>100%</b>	<b>53%</b>	<b>47%</b>	<b>85%</b>	<b>6%</b>	<b>6%</b>	<b>3%</b>
Total number of customers . . . . .	46,358						

Our Directors have confirmed that the work flow undertaken by each Consultant to ensure that customers purchase ILAS which are suitable for them and consistent with their requirements and risk appetite includes the following typical steps:-

- (i) Every new application must be accompanied by a Needs Analysis Form signed by the customer.
- (ii) The “Financial Planning Analysis” in Needs Analysis Form must expressly contain reasonable analysis by Consultants of the customer’s needs under these headings: “Objective”, “Affordability” and “Age”.
- (iii) By going through the Suitability Questionnaire signed by the customer contained in the Needs Analysis Form, the customer can understand his/her risk profile. Consultants must ensure that the risk level of the products match with the customer’s risk profile.
- (iv) Should there be mis-match of customer’s choice and Consultants’ advice or mis-match of risk profile, there will need to be a declaration by the customer that the customer chooses not to follow Consultants’ advice and/or to proceed with a mis-matched risk profile.



---

## **BUSINESS**

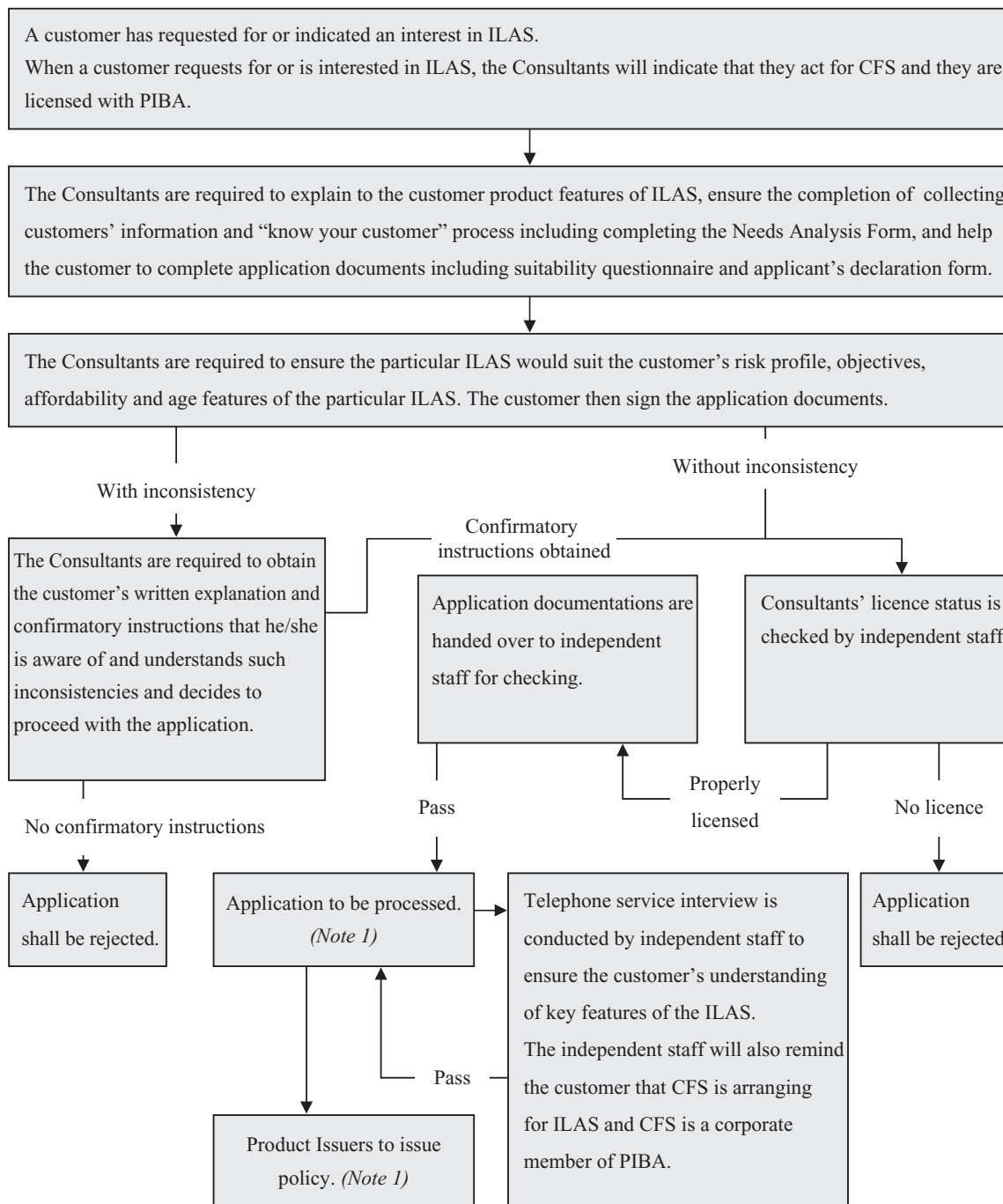
---

- (v) Further, every new customer must sign a form of Applicant's Declarations to confirm their understanding and acceptance of the highlighted features of the product.

Our Directors have confirmed that no extra liabilities arise with our Group in addition to the usual liabilities which an insurance broker is subject to such as failure to comply with the codes of conduct of PIBA and/or MPFA, as a result of customers' signing of the aforementioned forms.

## BUSINESS

The following diagram illustrates the key steps in a typical selling process of CFS in respect of ILAS:



*Notes:*

- (1) The customer has cooling-off rights to cancel the application. Please refer to the paragraph headed "Development of ILAS in Hong Kong" in the section headed "Industry overview" in this prospectus.
- (2) For other products such as those offered by CAM, when a customer requests for or needs products that a particular Consultant is not licensed for, that particular Consultant will cease to serve that customer, and our Directors believe that such customer will be transferred and served by other Consultants with proper licences.

---

## BUSINESS

---

### MAJOR AWARDS AND RECOGNITIONS

Since our establishment, we and the Consultants have received a number of charity, industrial and professional awards as a recognition of our achievement and endeavour for great accomplishment. Some of our major awards include:

<u>Year awarded</u>	<u>Major awards</u>
2009	<p>“Best Employers in Hong Kong 2009” by Hewitt Associates in partnership with South China Morning Post and “Best Employers in Asia 2009” by Hewitt Associates in partnership with the Wall Street Journal Asia.</p> <p>Ms. Fong, the chief executive officer of CFS was honored as “Benchmark Most Extraordinary Women in Finance 2009” by Benchmark magazine</p> <p>“Hong Kong’s Best Company for Financial Planning Excellence (Independent Financial Advisory industry sector)” for the third consecutive year by South China Morning Post and IFPHK</p>
2008	<p>“Hong Kong’s Best Company for Financial Planning Excellence (Independent Financial Advisory industry sector)” for the second consecutive year by South China Morning Post and IFPHK</p> <p>“Hong Kong’s Most Valuable Companies 2008” by Mediazone Limited</p> <p>“Brand-with-a-Conscience Certificate with Merit” awarded by Hong Kong Institute of Marketing</p> <p>“5 Years Plus Caring Company Logo” by The Hong Kong Council of Social Service</p>
2007	<p>“Hong Kong’s Best Company for Financial Planning Excellence (Independent Financial Advisory industry sector)” by South China Morning Post IFPHK</p> <p>“Best Employers in Hong Kong 2007” by Hewitt Associates in partnership with South China Morning Post</p> <p>“5 Consecutive Years Caring Company Logo” (2002-2007) by The Hong Kong Council of Social Service</p>

### SUMMARY OF INVESTIGATION AND COMPLIANCE ISSUES

#### Complaint handling procedures of our Group

Complaints are generally classified by our Group as internal or external according to their nature. A customer may lodge a complaint (i) by telephone; (ii) in person; (iii) by post or by e-mail; or (iv) through media (our Directors have confirmed that our Group has never received complaint through this channel). Our Group sets out various handling procedures for each of the respective means of complaint.

For general complaints, which are defined under the complaint handling manual as complaints not consisting of any fraud, offence against the rules and laws of regulatory bodies and/or causing

---

## BUSINESS

---

damages to the image of our Group, are handled by the customers experience officer. The customers experience officer would conduct investigations and initiate follow-up work in accordance with the manual. Our Directors have confirmed that handling of the general complaints is usually completed within 14 working days from the date of receiving the complaint.

In the event that complaint cases arising from Consultants' misconducts when representing CAM are raised to CFS staff, CFS will refer such cases to CAM's customer service staff for their further handling. CFS has also issued a directive to remind its staff the aforesaid referral procedure. Our Directors have confirmed that, to the best of their knowledge and belief, CAM's complaint handling procedure is in line with the SFC's Code of Conduct. In addition, each of CFG and CAM has jointly and severally agreed that it will indemnify and at all times keep all and each of the members of our Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of our Group may incur in connection with or sustain from any complaints, claims or proceedings lodged by any person in relation to the business undertaken or carried on by CFG and/or CAM.

For serious complaints, which are defined under the complaint handling manual as complaints other than general complaints, are handled by the compliance officer. The compliance officer would investigate and evaluate the impact of the complaints and make appropriate actions accordingly. Our Group received 27, 21 and 16 such complaints against the Consultants for the three years ended 31 December 2007, 2008 and 2009 respectively, which are mainly related to potential mis-selling and unsatisfactory service standards of the Consultants. There was only one complaint against our Group, which was received in the year ended 31 December 2007, during the Track Record Period. The complaint is relating to possible errors occurring in switching of underlying funds of ILAS conducted by the relevant Product Issuer, regarding which CFS received no further enquiry after responding to the same in April 2007. Our Directors have confirmed that there were no complaints that had resulted in the payment of compensation by our Group to our customers during the Track Record Period (save that in 2007 CFS offered HK\$6,500 to one customer on a non-admission of liability basis in relation to the customer's complaint where CFS had not obtained reimbursement from the Consultant given the relatively insignificant size of compensation) and there is no outstanding complaints that are expected to have a material impact on our Group's results, financial position and reputation.

### **Investigations and compliance issues**

Our Group's operations are subject to relevant laws, rules and regulations in Hong Kong concerning insurance intermediaries. Such laws, rules or regulations are subject to changes from time to time. Notwithstanding our Group's formulation and implementation of compliance guidelines and internal control measures, there may exist weaknesses in the acts of our Directors and/or staff, which may subject themselves and/or the relevant members of our Group to investigations by the relevant authorities and/or disciplinary actions. The following, to the best knowledge of our Directors, summarises all the material investigations conducted by the relevant authorities against our Consultants by the regulatory authorities up to the Latest Practicable Date. Our Directors believe that actions taken by the SFC or PIBA as disclosed below would not adversely affect the financial position, business and operation of our Group.

**Suspected contravention of Section 50 and/or Section 74 of the Securities Ordinance (repealed) by persons purporting to market securities**

The SFC issued a warning letter on 28 February 2003 to CFS ( the “**Letter**”) which states that the SFC had conducted investigations, during or around August 2002, into suspected contravention of Section 50 and/or Section 74 of the Securities Ordinance (repealed) by persons purporting to market securities and the SFC, and having considered all the circumstances of the case, decided to do no more than issue the Letter.

As stated in the Letter, the investigations conducted by the SFC revealed, inter alia, that:

- (i) a marketing staff of CFS had as a result of unsolicited telephone calls discussed in general terms the possibility of investments in various instruments that could be categorised as securities; and
- (ii) CFS did not appear to have established a clear written policy stipulating that the telemarketing staff can only market insurance products through unsolicited telephone calls or visits.

As stated in the Letter, CFS was warned by the SFC that, inter alia, it should establish written policies stipulating that all the staff, including both the Consultants and telemarketers, should not market securities and/or investment-related services through unsolicited calls or visits.

The SFC having considered the circumstances of the above cases, had decided to do no more than to issue the Letter. Since this incident, our Group has taken stringent measures to monitor and supervise the activities of the Consultants and to ensure that the Consultants observe our Group’s written policies and/or SFC’s rules and regulations at all times.

Pursuant to the SFC Circular, units in ILAS are not securities; any advice that might be given to a policyholder concerning the selection of underlying funds of ILAS is not advice on securities; and promoting, offering or selling ILAS does not constitute dealing in securities. Therefore, our Directors consider that our Group does not market any securities to our customers. Notwithstanding the above, our Group has since then established written policies stipulating that all the Consultants should not market securities and/or investment-related services through unsolicited calls or visits. The legal and compliance department of our Group conducts random checkings to ensure compliance of such written policies by all the Consultants.

As our Group is regulated by the PIBA (for activities conducted by CFS), relevant compliance procedures are implemented. Upon receiving the Letter, in order to avoid the happening of similar incidence in the future, our Group has seriously requested all staff and the Consultants to strictly follow the requirements as set out in the written policies through both notices by e-mails and meetings.

**Litigation and claims brought against CFS and CAM**

In relation to litigation and claims brought against CFS, there were one and four cases brought against CFS in the Small Claim Tribunal in 2002 and 2007 respectively involving allegations of mis-selling of ILAS by Consultants. CFS won all these cases in the sense that the case in 2002 was dismissed in the same year and the cases in 2007 were dismissed in 2008. Further, there was one case brought against CFS in the Kwun Tong Magistrate’s Court in 2008 involving allegation of possible breach of Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) by CFS. CFS

---

## BUSINESS

---

also won the case in the sense that it was also dismissed in 2008. As at the Latest Practicable Date, CFS was not subject to any liability or follow up action in relation to each of the aforementioned cases. CFS was not subject to other litigation and claims since incorporation and up to the Latest Practicable Date. CAM faced with no litigation or claim since incorporation and up to the Latest Practicable Date. Furthermore, there was no outstanding claim or litigation against CFS or CAM as at the Latest Practicable Date.

### **Internal and external disciplinary actions on the Consultants**

Our Directors confirm that there were two cases of complaints (opened in May 2008 and December 2009 respectively) which resulted in CFS terminating the contractual relationship with two Consultants during the Track Record Period. The complaints of these cases mainly related to the complainants' allegations as to how the relevant Consultants handled their contributions to the Product Issuers. Our Directors considered that the relevant Consultants failed to comply with CFS's internal code, rules and procedures and subsequently their contractual relationships with CFS were terminated. Our Directors have confirmed that these cases have not led to any disciplinary action from any authorities against the relevant Consultants involved and/or CFS.

Further, in 2009, a resigned Consultant was disciplined by PIBA because PIBA considered his sale method and acts relating to information for clients problematic. The resigned Consultant's licence with PIBA was suspended for three months. The Consultant did not lodge an appeal. Our Directors have confirmed that this case has not led to any disciplinary action from any authorities against CFS.

In addition, the SFC issued a reprimand to each of two Consultants, and fined each of them HK\$30,000 in April 2007. As announced by the SFC in its enforcement notices, the said Consultants, being licensed representatives to carry out type 4 (advising on securities) regulated activity under SFO and accredited to CAM and also being accredited to CFS which is not licensed with SFC, whilst acting for CFS, failed to, inter alia, be conversant with risks associated with investment product, adequately explain to clients all the material down side risks and sufficiently ensure suitability of investment product. CAM and CFS imposed certain internal sanctions on the said Consultants as a result of this incident but did not terminate their contracts for services with CAM or CFS. As at the Latest Practicable Date, the said Consultants remained Consultants and licensed by both SFC (accredited to CAM) and PIBA (accredited to CFS).

Save for aforesaid, our Directors have confirmed that up to and including the Latest Practicable Date, (i) our Group had not been subject to any investigation and had not received any disciplinary action including warning letters, from any of the relevant authorities of licensing against our Group; (ii) our Group complied with all relevant laws, rules and regulations in Hong Kong concerning the insurance and MPF schemes brokerage business carried on by our Group in Hong Kong during the Track Record Period; (iii) CFS and all the Consultants had been properly licensed by relevant regulatory bodies when conducting the business since incorporation of CFS; and (iv) neither our Group, each of our Directors, the key management personnel of our Group nor the Consultants had been subject to any ongoing disciplinary action or investigation by PIBA, the SFC or other regulatory authorities, or refused registration or been censured, disciplined or disqualified by PIBA. We also undertake not to appoint as our Consultants any person who has been subject to relevant disciplinary actions by relevant regulatory authorities and such relevant disciplinary action calls into question his/her fitness and properness and this is also in line with the licensing requirements of PIBA.

---



## BUSINESS

---

### INSURANCE

We maintain proper professional indemnity insurance in compliance with the minimum requirements for insurance brokers as specified by the IA. In addition, insurance coverage for our Group's operations is in place, which covers risks including loss of damage to property, employees' compensation and business travel loss and accidents. For each of the three years ended 31 December 2007, 2008 and 2009, our total insurance expenditures amounted to approximately HK\$430,000, HK\$761,000 and HK\$1.1 million, respectively. Based on the industry practice in Hong Kong and our experience in running our business, our Directors believe that amount of insurance coverage is adequate for our Group under our current size of operations and have confirmed that amount of insurance coverage meets the IA's requirements.

### INTELLECTUAL PROPERTY RIGHTS

Our Group does not register any intellectual property rights. Our Group entered into a non-exclusive licensing agreement for insurance and MPF business in Hong Kong dated 21 June 2010 with CTL to use the Trademarks registered by CTL, namely , CONVOY, 康宏理財, 康宏 and , in Hong Kong, details of which are set out in the section headed "Relationship with the Controlling Shareholders and connected transactions" in this prospectus.

### COMPETITION

#### *Competitors*

Our Directors are aware that there are competitors providing insurance brokerage services with different scales of operation. Our Directors believe that our Group's major competitors providing insurance brokerage services in Hong Kong are private companies and no public information about these competitors is available. However, according to the registration information extracted from the registers of PIBA and HKCIB as at 30 April 2010, being the latest practicable date for ascertaining the registration information from HKCIB, our Group was the largest in terms of the number of consultants licensed to market ILAS. As at 30 April 2010, there were 11 companies (including our Group) having more than 100 consultants licensed to market ILAS and 371 companies (approximately 97.1% of the total number of companies) having not more than 100 consultants licensed to market ILAS. Statistics about the number of consultants licensed to market ILAS are disclosed under the paragraph headed "Our competitive advantages" above in this section. Certain banks and insurance companies may also offer ILAS to their customers and some of which are public companies. However, our Directors are not aware that they act as insurance brokers in so doing or they treat ILAS as their principal line of business. Therefore, they are not considered as direct competitors of our Group as other insurance brokers.

Our Directors believe that our Group is one of a few companies in the insurance brokerage industry that providing (i) full time professional training under the Development Model (for the details of the Development Model, please refer to the paragraph headed "Our competitive advantages" above in this section) to the Consultants; and (ii) technical supports to the Consultants through the corporate operation department, the legal and compliance department, the product department, the consultancy development department and the consultancy administration department of our Group.

Our Directors further believe that our Group has a high brand name recognition in the market and has an established business relationships with ILAS Issuers and customers, leveraging on which the competitive strengths of our Group in the insurance brokerage industry could be enhanced.

***Barrier to entry***

It is a statutory requirement that a person intending to act as an insurance broker shall seek authorization from IA or apply to become a member of a body of insurance brokers approved by IA. Our Directors consider that such a seemingly not too demanding authorisation requirement together with the goodwill built-up by experienced independent insurance brokers over their history of operations would create an effective barrier for potential entrants to become a significant player in the insurance brokerage industry.

Although the above barriers to entry discourage new entrants of insurance broker, our Group faces competition from existing banks and insurance companies. Our Group possesses competitive strengths over its competitors, details of which are set out under the paragraph headed “Our competitive advantages” above in this section.

***Competition on qualified personnel***

Having established our services as one of the independent insurance brokers providing quality insurance brokerage services in Hong Kong, our Group has developed various strategies to retain human talent, such as education subsidy and career development counselling.

***Experienced management***

Our key management, including all our executive Directors, senior management staff and senior management of the Consultants, have extensive experience in the industry. Hence, they have established and maintained good relationship with customers, ILAS Issuers, insurance companies and other participants in the insurance and MPF schemes brokerage industry.

Our Group has traditionally recorded a very low turnover rate for our senior management and the Consultants. The simple organisational structure of our Group also facilitates quick response time on the change of business environment.

***Sales and marketing force***

Our Group provides various trainings and career development to the Consultants, including on-job training, mentoring under the Development Model and advice to career development. Also, some senior members of the Consultants hold indirect equity interests in our Group. As such, our Directors believe that the Consultants will be more dedicated and loyal to our Group.

***Establishment of business relationship with the Product Issuers***

Our Group has established good business relationship with the Product Issuers.

In general, the major terms of the broker agreements entered into between CFS and the Product Issuers (such as ILAS Issuers) include, inter alia, the following:

- (i) our Group shall, in the capacity of an independent contractor, introduce business to the Product Issuers and in return the Product Issuers shall pay commission to our Group at a specified rate on a regular basis;
- (ii) the Product Issuers reserve the rights not to accept the business introduced by our Group;



---

## BUSINESS

---

- (iii) in the event of a Regular-savings ILAS insurance policy being terminated by the relevant customer during the indemnified period for commission clawback which generally ranges from 6 months to 24 months from the date of execution of the ILAS policy, our Group shall refund to the Product Issuers the relevant commission which it has received on a pro-rata basis, i.e., if a customer terminates his Regular-savings ILAS policy a number of months after the date of execution of his insurance policy and such termination falls within the indemnified period, our Group is entitled to retain the commission for a portion of such number of months over the relevant indemnified period and shall refund any excess commission already received to the Product Issuers. For details of risks on commission clawback, please refer to the paragraph headed “Commission clawback” above in this section; and
- (iv) the agreements have no expiry date and can be terminated subject to one month’s advance notice and/or under certain circumstances, for examples:
  - (a) winding up proceedings being instituted against our Group;
  - (b) our Group ceases trading;
  - (c) our Group committing any act of misconduct which, in the opinion of the Product Issuer, is or likely to be prejudicial to its interest; or
  - (d) any breach of conditions under the broker agreements.

### **DETAILS OF COMPETING INTERESTS OF OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

Each of our Directors and the Controlling Shareholders has confirmed that he/she/it and his/her/its associates does not have any interests in a business apart from our Group’s business which competes or is likely to compete with our Group upon Listing and after Listing.

Pursuant to the service agreement (the “**Directors’ Service Agreement**”) entered into between our Group and each of the executive Directors, each executive Director has undertaken to our Company that he/she will not (whether as a shareholders, director, employee, partner, agent, or otherwise, but excluding the holding by the executive Director of not exceeding 5% of the shares or warranties in any company the shares of which are listed on a recognised stock exchange) either alone or in conjunction with any other person directly or indirectly carry on or be engaged in any business or activity which competes or is likely to compete with the business of any member of our Group in the territories where any member of our Group carry on its business as long as he/she continues to be a Director and 12 months after resignation or termination of his/her Director’s Service Agreement.