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OVERVIEW

Our Group is an interdealer broker in Hong Kong providing derivatives brokerage services to Professional Investors. Our Group carries out our derivatives brokerage business through our wholly-owned subsidiary, De Riva, which is a licensed corporation under the SFO and a HKFE Exchange Participant. De Riva is licensed by the SFC to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities in Hong Kong for Professional Investors without providing any margin financing. Under the licensing condition, our Group can only provide services to Professional Investors.

The principal business of our Group is derivatives brokerage, which involves matching and/or executing and settling derivatives trade orders for our customers. During the Track Record Period, when our customers place a trade order, it usually involves a combination of futures and options and other derivatives products. These trade combinations are typically viewed as a single product in the derivatives market by our customers. For further details of these trade combinations please refer to the paragraph headed “Our brokerage services — Our major trade combinations” under this section.

Our customers are all Professional Investors as defined under the SFO, including investment banks, market makers and funds. As at 31 March 2016, 31 March 2017 and 31 March 2018, our Group had a total of 76, 78, and 85 customers, of which 50, 45 and 44 of them are active customers (*note*), respectively.

During the Track Record Period, our trade orders involved both listed derivatives products and non-listed derivatives products. For listed derivatives products, the trade orders were either executed on the HKEx or the SGX. For non-listed derivatives products, the trade orders were all executed OTC. For all OTC trade orders, our Group acted as an agent to arrange for and match up trade orders, and did not provide any execution, settlement or clearing services. The trading parties are directly responsible for all risks involved in the OTC transactions.

During the Track Record Period, our Group derived all of our revenue from commission income for our derivatives brokerage services provided to our customers. For each of the three years ended 31 March 2016, 2017 and 2018, our total revenue was approximately HK\$60.2 million, HK\$59.8 million and HK\$76.8 million, respectively. Our commission fee is calculated based on either the number of contracts traded or the notional value traded. For further details on the calculation methods of commission fee, please refer to the paragraph headed “Our pricing policy” under this section.

Note: For the purposes of this document, active customers are customers who have traded through our Group in the previous 12 months.

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The table below sets out our revenue breakdown by channel of execution:

	For the year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
HKEx	50,882	84.5	46,681	78.1	64,033	83.4
SGX	7,356	12.2	11,657	19.5	8,016	10.5
OTC	1,968	3.3	1,414	2.4	4,710	6.1
Total	60,206	100.0	59,752	100.0	76,759	100.0

The business operations of our Group are reliant on a number of service providers, including execution brokers, clearing brokers, market data vendor, etc. During the Track Record Period, the major contracts our Group signed with our service providers are the brokerage agreements with our clearing and execution brokers, and a service agreement with a market data vendor. For further details of our service providers, please refer to the paragraph headed "Our service providers" under this section.

During the Track Record Period and up to the Latest Practicable Date, our Group carried out our derivatives brokerage business through our only office in Wanchai, Hong Kong. Our Directors confirm that our Group does not have any other subsidiaries, branches or partnerships outside Hong Kong.

OUR COMPETITIVE STRENGTHS

As an interdealer broker of derivatives, our Group assisted in the negotiation process between the trading parties through acting as an intermediary to facilitate the information flow and the price discovery process in the derivatives market. Our Directors believe the following competitive strengths contributed to our continued success and potential for growth:

Experienced and competent senior management with strong customer base

Our Group is led by a team of experienced professionals. Each of our executive Directors, Mr. Lau, Mr. Choi, Mr. Lee, Mr. Fung, and Mr. Ng, has over 10 years of working experiences in the equity derivatives market, and has established relationships with customers in the derivatives market that allow our Group to source liquidity for various derivatives products. The key executives including our Directors and/or shareholders played a crucial role as a team in the business development of our Group. During the Track Record Period, our executive Directors, namely Mr. Choi and Mr. Ng, have successfully referred 2 customers which, have been served and cultivated by our licensed brokers collectively, have become our Group's top ten customers for the year ended 31 March 2017, and together contributed approximately HK\$2.6 million, HK\$6.2 million and HK\$4.2 million to our total revenue for the years ended 31 March 2016, 2017 and 2018, representing approximately 4.3%, 10.3% and 5.5% of our total revenue, respectively.

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Furthermore, as a team, the current management team is able to maintain and cultivate the then existing customers of our Group since they have joined in 2013, together with the engagement of new customers, led to an overall increase in our Company's revenue from approximately HK\$44.7 million for the year ended 31 March 2013 to approximately HK\$76.8 million for the year ended 31 March 2018 with a CAGR of approximately 14.5% and a healthier financial position as a whole with an reversal of loss making position to a profit making position from a net loss of approximately HK\$23 thousand for the year ended 31 March 2013 to a net profit (excluding non-recurring [REDACTED] of approximately HK\$[REDACTED]) of approximately HK\$[REDACTED] for the year ended 31 March 2018. Therefore, it is believed that the success of the development of our Company is, to a significant extent, attributable to the existing management team who have joined our Group since 2013. In addition, Mr. Choi, one of our executive Directors, initiated the introduction of brokerage services of SGX derivatives products and delivered by our licensed brokers collectively to our Group's customers, which contributed approximately HK\$7.4 million, HK\$11.7 million and HK\$8.0 million to the total revenue for each of the three years ended 31 March 2016, 2017 and 2018, representing approximately 12.2%, 19.5% and 10.5% of the total revenue, respectively.

With their experiences, knowledge and extensive network, our Directors believe our Group will be able to continue to provide reliable, efficient and professional brokerage services to our customers. Our Directors also believe that our Group will be able to respond to the rapidly changing market conditions that continuously affect our business operations.

Please refer to the section headed "Directors and senior management" in this document for further details of the experience and qualifications of our Group's management team.

Extensive customer network and quality services as an interdealer broker in the derivatives market

Our Group has established an extensive customer network which is comprised of renowned global investment banks and active market makers in Hong Kong. Many of them have already established stable relationships with our Group. Our Directors believe our extensive customer network is one of our key strengths, as our customers rely on our extensive customer network to access better liquidity so as to complete their trades. Our Group places great emphasis on maintaining good relationships with our customers by providing them with quality and timely services. Our Directors believe that, through the last four years of business operations, our Group has established ourselves as a reputable and trusted interdealer broker in the derivatives market in Hong Kong.

Diversified background of our licensed brokers

As at the Latest Practicable Date, our broking team consisted of twelve Licensed Representatives and three Responsible Officers. Among the twelve Licensed Representatives who are our licensed brokers, two are native Korean, three are native French, one is native British and the rest of them are Chinese. The diversified cultural background and language skills of our licensed brokers have enabled them to

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communicate and cultivate relationships with dealers of our customers who are from various countries, and thus give us an edge over our competitors to retain and attract customers. In particular, our Korean licensed brokers have been responsible for dealing with Korean-speaking dealers. Our Directors are confident that they would be an invaluable asset to us when our Group expands our business to OTC KOSPI 200 derivatives market.

OUR BUSINESS STRATEGIES

Our Group intends to further strengthen our position as an interdealer broker in Hong Kong. Our Group plans to continue expanding our customer network in Hong Kong and enhance our competitive strengths to further expand our market share. Our Group will continue to strengthen our derivatives brokerage business through expanding our product coverage. Our business strategies are detailed as follows:

To apply for becoming a Clearing Participant

Due to regulatory requirements, clearing of trades on the HKEx must be carried out by a registered clearer. During the Track Record Period, our Group relied on external clearing brokers to provide clearing services to our trade orders completed in our daily operation.

Our clearing fees paid to clearing brokers for the provision of clearing services is also the largest part of our other operating expenses which amounted to approximately HK\$5.5 million, HK\$6.4 million and HK\$5.4 million, and approximately 36.1%, 36.1%, and 32.6% of our other operating expenses for each of the three years ended 31 March 2016, 31 March 2017, and 31 March 2018, respectively.

During the Track Record Period, our Group recorded a one-off short business disruption caused by Service Provider A, a General Clearing Participant then engaged by De Riva. The right of De Riva to access the HKATS was suspended and therefore De Riva was not allowed to directly execute trade orders on the HKFE in the afternoon session on 23 December 2015 as a result of not having a valid agreement with a General Clearing Participant to clear the trade orders for us. As a non-clearing participant of HKCC, De Riva is required to engage a General Clearing Participant who is legitimate to access HKATS, execute and clear De Riva's futures and options trade orders on behalf of De Riva. Since Service Provider A, De Riva's then clearing broker, erroneously submitted a notification of termination of clearing agreement on 23 December 2015, De Riva's access to the HKATS was therefore suspended during the afternoon trading session on 23 December 2015 pursuant to HKFE Rule 530(b). De Riva immediately contacted the HKFE in the afternoon of 23 December 2015 and explained that such termination of clearing agreement was an error submission from Service Provider A. After that, a notification of execution of clearing agreement was submitted to the HKFE to re-confirm Service Provider A would act as De Riva's General Clearing Participant. Subsequently, such suspension was lifted on 24 December 2015. During the period of the suspension, De Riva was able to execute trade orders for our customers through another service provider, who is a Futures Commission Merchant and was able to trade for the account of other HKFE Exchange Participants.

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Although such temporary suspension did not cause any material disruption to De Riva's business operations and had no material impact on De Riva's results of operations and financial status, our Directors consider that it is necessary for us to have better control on our daily business operations, in particular, to have our own clearing capability.

Currently, our Group engages Service Provider B to provide clearing services for our Group's customers, and in this connection, Service Provider B makes available to our Group a credit facility of EUR2.5 million for margin financing purpose, on condition that our Group shall maintain a cash deposit of HK\$4 million with Service Provider B. The Group knew Service Provider B through the list of HKCC General Clearing Participants published on the HKEx website. The Directors subsequently approached Service Provider B through publicly available information on the internet and decided to replace Service Provider A with Service Provider B as our Directors are of the view that Service Provider B provides better trade execution and trade reporting services to our Group. Our Group intends to apply for becoming a Clearing Participant in the year ending 31 March 2020. If and when our Group becomes a Clearing Participant, our Group will have to source and obtain a replacement credit or banking facility for its business, and such credit or banking facility is expected to be at a similar amount as the current one provided by Service Provider B. Our Directors are of the view that it is reasonable to expect that the bank may require a cash deposit as pledge, and may benchmark the expected cash pledge against the cash deposit made with Service Provider B for the level of cash flow that our Group would require for it to operate its clearing functions in its ordinary course of business after De Riva becoming a Clearing Participant. Our Group therefore intends to apply approximately HK\$4.0 million of the [REDACTED] from the [REDACTED] to finance the estimated need of cash flow for acting as a Clearing Participant. This HK\$4.0 million is based on the aforementioned estimation and is not a regulatory requirement.

Our Directors believe that becoming a Clearing Participant will significantly lower our cost of business and allow our Group to have a better control on the daily operation.

De Riva plans to apply for becoming a Clearing Participant, which would provide our Group with ability to directly clear trade orders executed by ourselves on the HKEx. Our Directors believe that our Group will therefore be able to (i) save a significant amount of clearing cost attributable to our daily operations and thence enhance our overall profitability; and (ii) more importantly, have a better control on our daily clearing procedures.

To expand our OTC product coverage

Our Group intends to expand our product coverage to our customers including OTC Eurex MSCI derivatives market and OTC KOSPI 200 derivatives market. Our Group intends to recruit competent licensed brokers for the business development of OTC Eurex MSCI derivatives products.

The Eurex introduced MSCI derivatives in 2008 and as of 2017, has a repertoire of 88 futures products and 19 options products related to MSCI. These derivatives products covered different markets or regions in the world. The development of MSCI derivatives listed on the Eurex has experienced a rapid growth since 2014. For the first three quarters

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of 2017, approximately 8.5 million contracts of MSCI derivatives were traded on the Eurex, which represents a 180% increase when compared with the same period of the previous year.

The business development of OTC KOSPI 200 derivatives market will be operated by Mr. Ng, one of our executive Directors. Mr. Ng currently participates in managing and overseeing the operation of the broking team of listed Hong Kong derivatives products.

The Korea Exchange (KRX) is one of the largest derivatives marketplaces around the globe and its flagship product is KOSPI 200 options. In 2016, a total of 337 million KOSPI 200 options contracts were traded around the globe, making it the second most traded index options of the year. The KRX has an extensive sector coverage that spans from traditional blue-chip industries such as electronics, machinery, automobile, and oil refining, to high growth and future-oriented industries such as IT, semiconductors, biotechnology, and entertainment. The KRX enjoys global prominence with a steady growth of foreign investor holdings and continuous increase in terms of the absolute number of global investors as well as the diversity of their nationalities. Our Directors believe that there is great potential in the OTC KOSPI 200 derivatives market due to the growing interests of our customers, therefore the establishment of the OTC KOSPI 200 derivatives products matching services will provide opportunities for our Group to harvest the potential profits from providing such services to our customers who have been actively trading or have the intention to trade OTC KOSPI 200 derivatives products. Our Directors confirm we are not subject to any laws and regulations for providing matching services on OTC KOSPI 200 derivatives products as they would all be traded OTC. Our Group would only act as an agent to provide trade matching services for all OTC KOSPI 200 derivatives products.

Our Directors believe the abovementioned development will encourage the growth in our revenue as well as assist our Group to diversify our sources of revenue geographically.

To expand our office premises to accommodate the expansion of our business operations

The head office of the Group moved into a bigger office premises in April 2018 to accommodate our expansion plan. As our business operation level would increase, there is necessity for upgrades of our infrastructure including the IT systems, backend servers, trading terminals and setups.

With the new office premises, our Group would be able to expand our trading desks together with the number of brokers and enhance our capability to increase our operation level and to bring in foreseeable increase to our Group's revenue.

Our business operation substantially relies on the stability and quality of the trading platforms employed. Therefore, our Group intends to invest in necessary IT infrastructures and our IT staff will be dedicated for the operation and maintenance of our computer system. Our Group will continue to monitor our investment in these infrastructures to ensure that our Group receives real-time market data for our customers and is able to implement real-time risk management, including the monitoring of abnormal transactions.

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Our Group intends to continue upgrading our trading support by taking the following measures:

- to enhance our backup systems, disaster recovery systems and data security in ensuring proper functioning of the trading system in case of individual device failure; and
- to review on a monthly basis by our Directors and senior management and where necessary, adjust our risk management system to prevent risks before occurrence.

To enhance the business development of the HKEx segment of our Group

Our Group's employees are our most important assets in our business. Our success depends to a great extent on our ability to attract, incentivise and retain professionals and experienced personnels and our Group emphasises on recruiting competent and experienced professionals to continuously strengthen our competitiveness and presence in the market. In order to maintain and improve our competitiveness in the market, our Group intends to employ one senior licensed broker for the HKEx segment.

SUSTAINABILITY OF OUR BUSINESS

Our Directors are of the view that our business is sustainable based on the following factors:

Continuous growth of market size

The size of the derivatives brokerage industry in Hong Kong, in terms of brokerage fees income, is expected to continue to grow and such growth will in turn benefit our Group's future business development. According to the CIC Report, the derivatives brokerage industry in Hong Kong, in terms of brokerage fees income, is expected to grow at a CAGR of 9.8% from 2016 to 2022, and is believed to be driven by factors including the volatility in the global financial market and the development in Hong Kong's fund management industry. Please refer to the section headed "Industry overview" in this document for further details.

Our ability to grow

Our Group's existing management (except Mr. Lau) all joined De Riva in 2013. Since then, our Group has been building up its customer base and endeavouring to develop itself as a top equity derivatives interdealer broker in Hong Kong. Our Group's growth and development within the relatively short period of operating history were mainly attributable to the efforts of our executive Directors, in particular, Mr. Choi, Mr. Ng, Mr. Lee and Mr. Fung, each of whom has over 10 years of working experience in the equity derivatives industry and his own established relationships with our customers. Our management has also been striving to widen our brokerage services provided to our customers. For instance, Mr. Choi, our executive Director, initiated the provision of brokerage services for SGX derivatives, which contributed approximately HK\$7.4 million, HK\$11.7 million and HK\$8.0 million to the total revenue for each of the three years ended

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31 March 2016, 2017, 2018, respectively. As part of our Group's future plan, our Directors target to expand our OTC derivatives coverage by introducing OTC KOSPI 200 derivatives products and Eurex MSCI derivatives products to our product categories.

Our ability to grow was also proven by our historical financial performance from the HKEx segment. For the three years ended 31 March 2016, 2017 and 2018, our revenue derived from HKEx segment recorded a CAGR of approximately 8.0%, which is above CAGR of total amount of brokerages fees from derivatives brokerage activities in Hong Kong of approximately 5.0% from approximately HK\$3.8 billion in 2015 to an estimation of approximately HK\$4.4 billion in 2017, according to the CIC Report. Although our revenue derived from HKEx segment decreased by approximately 8.3% for the year ended 31 March 2017, partly due to the reduction in commission rates charged to one of our major customers, its impact on our Group's revenue was able to be compensated by the increase in trading volume in the subsequent years. In particular, for the year ended 31 March 2018, our Group experienced an increase in the total trading volume by approximately 63.0%, which led to an increase in our revenue by 37.0%. Our Directors are of the view that the reduction in our commission rates to accommodate our customers' request is commercially sensible and ultimately beneficial to our Group. Meanwhile, as our other major customers did not make any further request for any revision of the pricing terms for the year ended 31 March 2018, and with reference to the industry expert's research result, we are of the view that our Group's pricing terms are in line with the market and sustainable.

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Our Group is an interdealer broker in Hong Kong providing derivatives brokerage services to Professional Investors. Our Group carries out our derivatives brokerage business through our wholly-owned subsidiary, De Riva, which is a licensed corporation under the SFO and a HKFE Exchange Participant. De Riva is licensed by the SFC to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities in Hong Kong for Professional Investors without providing any margin financing. Under the licensing condition, our Group can only provide services to Professional Investors.

Our customers are all Professional Investors as defined under the SFO, including investment banks, market makers and funds. As at 31 March 2016, 31 March 2017 and 31 March 2018, our Group had a total of 76, 78 and 85 customers, of which 50, 45 and 44 of them are active customers, respectively.

	As at 31 March		
	2016	2017	2018
Active customers ^(Note)	50	45	44
Inactive customers	26	33	41
Total customers	76	78	85

Note: For the purpose of this document, active customers are defined as customers who have traded through our Group in the previous 12 months.

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For the years ended 31 March 2016, 2017 and 2018, the number of our active customers were 50, 45 and 44, respectively, despite the number of our total customers increased from 76 as at 31 March 2016 to 78 as at 31 March 2017 and further increased to 85 as at 31 March 2018. The main reason for the decrease in the number of our active customers during the Track Record Period was our Group's decision to cease OTC commodities derivatives business during the year ended 31 March 2016 and the cessation of the derivatives trading department of three of our customers as a result of management decisions which the Directors understand from public available information.

For the year ended 31 March 2016, our Group's revenue from the OTC commodities derivatives brokerage was approximately HK\$65 thousand. Our Directors then decided to cease providing brokerage services for OTC commodities derivatives products, with the view that our customers were not particularly interested in trading OTC commodities derivatives given that the revenue contributed by the OTC commodities derivatives segment during the year ended 31 March 2016 was insignificant. Since then, as confirmed by our Directors, our Group did not provide brokerage services in OTC commodity derivatives and there was no revenue contributed from OTC commodity derivatives brokerage.

As an interdealer broker, our Group only provides brokerage services to Professional Investors. Also, during the Track Record Period, our Group did not possess or offer any self-developed online trading platforms to our customers. All trade orders are placed directly by our licensed brokers upon our customers' confirmations.

Our Directors believe that the major reason our customers would choose to trade through our Group is that our Group is able to source liquidity for our customers to match up a trade order. Through acting as a contact point among the potential trading parties, and continuously communicating with our customers through quoting prices and receiving trade orders, our Group would be able to facilitate information flow. This gives us an advantage over our customers in terms of our access to liquidity through our extensive customer network and is the major reason our customers would prefer to trade through our Group for efficiency purpose. Another reason our customers would choose to trade through our Group is that as an interdealer broker, our Group is able to provide anonymity and confidentiality for their interests before the trade orders are matched.

OUR BROKERAGE SERVICES

During the Track Record Period, our Group provided brokerage services for both listed and non-listed derivatives. For listed derivatives products, the trade orders were either executed on the HKEx or the SGX. For non-listed derivatives products, the trade orders were all executed OTC. For all OTC trade orders, our Group acted as an agent to arrange for and match up trade orders, and our Group does not provide any execution, settlement or clearing services. The trading parties are directly responsible for all risks involved in OTC transactions.

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The table below sets out our revenue breakdown by channel of execution and methods of fee calculation:

	For the year ended 31 March											
	2016			2017						2018		
	<i>Fixed</i>		<i>Sub- total</i>	<i>Fixed</i>			<i>Fixed</i>					
	<i>per- centage</i>	<i>Fixed fee</i>		<i>per- centage</i>	<i>Sub- total</i>	<i>Fixed fee</i>	<i>per- centage</i>	<i>Sub- total</i>				
<i>Fixed fee</i>	<i>centage</i>	<i>total</i>	<i>Fixed fee</i>	<i>centage</i>	<i>total</i>	<i>Fixed fee</i>	<i>centage</i>	<i>total</i>	<i>Fixed fee</i>	<i>centage</i>	<i>total</i>	
HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	HK\$'000	%	
HKEx	41,704	9,178	50,882	84.5	35,543	11,138	46,681	78.1	34,348	29,685	64,033	83.4
SGX	7,180	176	7,356	12.2	11,231	426	11,657	19.5	7,176	840	8,016	10.5
OTC	90	1,878	1,968	3.3	40	1,374	1,414	2.4	16	4,694	4,710	6.1
Total	48,974	11,232	60,206	100.0	46,814	12,938	59,752	100.0	41,540	35,219	76,759	100.0

1. HKEx

For each of the three years ended 31 March 2016, 2017 and 2018, our HKEx brokerage services generated revenue accounted for 84.5%, 78.1% and 83.4% of our total revenue, respectively. Our HKEx brokerage services covered mainly HKEx listed index futures and options and HKEx listed single stock options. For HKEx listed index futures and options, the trade orders are executed through the HKATS on the HKFE and cleared through the DCASS, a clearing and settlement system of the HKCC for trade orders of exchange-traded derivatives (except single stock options). For HKEx listed single stock options, the trade orders are executed through the HKATS on the SEHK and cleared through the DCASS system, a clearing and settlement system of the SEOCH.

The table below sets out the breakdown of number of contract of HKEx listed derivatives executed by our Group by methods of fee calculation during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	'000,000	'000,000	'000,000
Fixed fee	3.1	2.6	2.7
Fixed percentage	2.3	2.8	6.1
Total	5.4	5.4	8.8

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2. SGX

For each of the three years ended 31 March 2016, 2017 and 2018, our SGX brokerage services generated revenue accounted for 12.2%, 19.5% and 10.5% of our total revenue, respectively. Our SGX brokerage services covered mainly delta one products, including rolls on SGX FTSE China A50 Index Futures, MSCI Singapore Index Futures and MSCI Taiwan Index Futures.

Our SGX brokerage services are conducted through other execution brokers, as our Group did not hold any trading right or licence in Singapore. When executing a SGX trade order on behalf of our customers, our licensed brokers would place the trade order through our own client account under our execution brokers, who are licensed corporations that could provide trade execution services on the SGX. The trading positions will first be secured under our account and then transferred to our customer's account before clearance pursuant to a brokerage agreement, namely a give-up agreement, signed among the execution broker, the clearing broker and ourselves.

The table below sets out the breakdown of number of contract of SGX contracts by our Group by methods of fee calculation during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	<i>'000,000</i>	<i>'000,000</i>	<i>'000,000</i>
Fixed fee	1.3	2.0	1.3
Fixed percentage	0.0	0.1	0.2
Total	1.3	2.1	1.5

During the Track Record Period, our SGX trade orders were generally executed through the SGX DT system and cleared through the SGX DC system.

3. OTC

For each of the three years ended 31 March 2016, 2017, and 2018, our OTC brokerage services generated revenue accounted for 3.3%, 2.4% and 6.1% of our total revenue, respectively. Our OTC brokerage services mainly covered index futures and options (with Hang Seng Index or Hang Seng China Enterprises Index as the underlying), and single stock options (with stocks listed in SEHK as the underlying), that were all non-listed derivatives.

Our OTC trade orders are settled in places other than formal and publicly recognised exchanges such as the HKEx and the SGX. The trading parties involved in the OTC transactions are usually exposed to counterparty risks. Counterparty risks refer to the risks that one of the contractual parties defaults or fails to perform its contractual obligations. During the Track Record Period, for all OTC transactions our Group dealt

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with, our Group acted only as an agent to arrange for and match up the trade orders between the trading parties. Our Group was not involved in any execution, settlement nor clearance process, and the trading parties were responsible for all the risks involved in the settlement and clearance process of the OTC transactions. Therefore, in general, our Group was not exposed to any counterparty risks for our OTC brokerage services.

The table below sets out the breakdown of number of contract of OTC contracts by our Group by methods of fee calculation during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	<i>'000,000</i>	<i>'000,000</i>	<i>'000,000</i>
Fixed fee	0.0	0.2	0.0
Fixed percentage	<u>558.3</u>	<u>192.1</u>	<u>2,050</u>
Total	<u>558.3</u>	<u>192.3</u>	<u>2,050</u>

OTC derivatives contracts are usually larger in trading volume compared to listed derivatives contracts because for OTC derivatives contracts, the contract multiplier is usually assumed to be 1, while listed derivatives contracts usually have a contract multiplier larger than 1 depending on the underlying assets. Hence for listed and OTC derivatives contracts with the same underlying assets and notional value, the trading volume of OTC derivatives contracts would generally be much larger than that of listed derivatives contracts. For further details, please refer to the paragraph headed "Our pricing policy" in this section.

The table below sets out our revenue breakdown by major types of products during the Track Record Period:

	For the year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
HKEx listed futures and options ^(Note)	39,173	65.1	35,032	58.6	37,450	48.8
HKEx listed futures	7,290	12.1	7,750	13.0	11,399	14.8
Single stock options	4,419	7.3	3,899	6.5	15,184	19.8
SGX	7,356	12.2	11,657	19.5	8,016	10.5
OTC	<u>1,968</u>	<u>3.3</u>	<u>1,414</u>	<u>2.4</u>	<u>4,710</u>	<u>6.1</u>
Total	<u>60,206</u>	<u>100.0</u>	<u>59,752</u>	<u>100.0</u>	<u>76,759</u>	<u>100.0</u>

Note: Trade orders were placed, executed and charged as a combination of futures and options

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The table below sets out the breakdown of the number of contracts executed by our Group by major types of products during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	<i>'000</i>	<i>'000</i>	<i>'000</i>
HKEx listed futures and options ^(Note)	2,827	2,941	3,284
HKEx listed futures	632	446	933
Single stock option	1,943	1,974	4,600
SGX	1,343	2,142	1,528
OTC	558,250	192,293	2,049,964

Note: Trade orders were placed, executed and charged as a combination of futures and options

The table below sets out the breakdown of average revenue per contract by major types of products of our Group during the Track Record Period:

	For the year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HKEx listed futures and options ^(Note)	13.9	11.9	11.4
HKEx listed futures	11.5	17.4	12.2
Single stock options	2.3	2.0	3.3
SGX	5.5	5.4	5.3
OTC	0.004	0.007	0.002

Note: Trade orders were placed, executed and charged as a combination of futures and options

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Our major trade combinations

During the Track Record Period, when our customers placed a trade order, the trade orders often involved a specific trade combination of index futures and options and/or single stock options, and are typically viewed as a single product by our customers in the derivatives market. Set out below are the trade combinations our Group commonly provided brokerage services for during the Track Record Period:

Types of trade combination

Description

Pay-off diagram

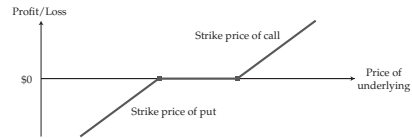
Calendar Spread

Sell a near month call or put and buy a far month call or put at the same strike

Not applicable

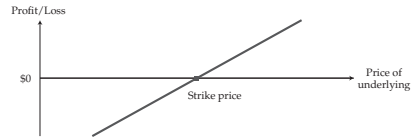
Risk Reversal

Buy a call and sell a put at different strike of the same maturity



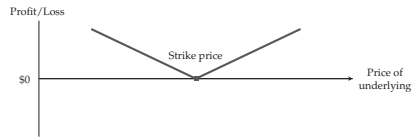
Synthetic Futures

Buy a call and sell a put at the same strike of the same maturity



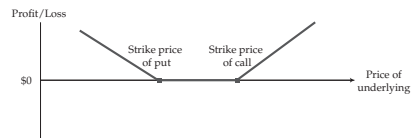
Straddle

Buy a call and a put at the same strike of the same maturity



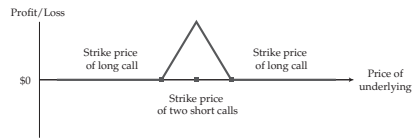
Strangle

Buy a put and buy a call at different strike of the same maturity



Call Butterfly

Buy a in-the-money call, sell two at-the-money calls at a same higher strike and buy a out-of-the-money call at an even higher strike. All options involved have to be of the same maturity



BUSINESS

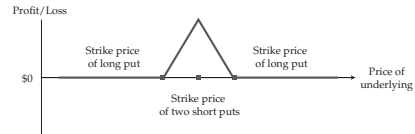
Types of trade combination

Description

Pay-off diagram

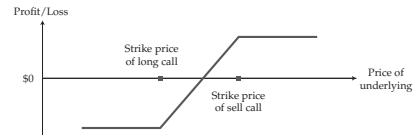
Put Butterfly

Buy a in-the-money put, sell two at-the-money puts at a same higher strike and buy a out-of-the-money put at an even lower strike. All options involved have to be of the same maturity



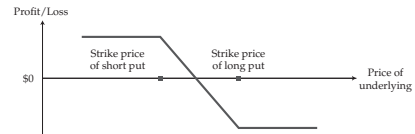
Call Spread

Buy a call and sell a call at different strike of the same maturity



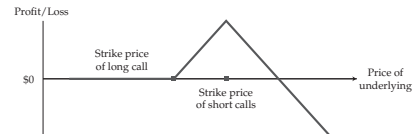
Put Spread

Buy a put and sell a put at different strike of the same maturity



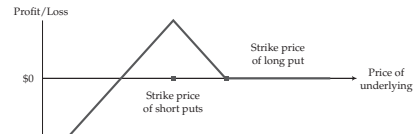
1 x 2 Ratio Call Spread

Buy a call and sell two calls at a different strike. All options involved have to be of the same maturity



1 x 2 Ratio Put Spread

Buy a put and sell two puts at different strike. All options involved have to be of the same maturity



During the Track Record Period, our Group separately set out commission rates for different trade combinations. For further details of our commission rates, please refer to the paragraph headed "Our pricing policy" in this section.

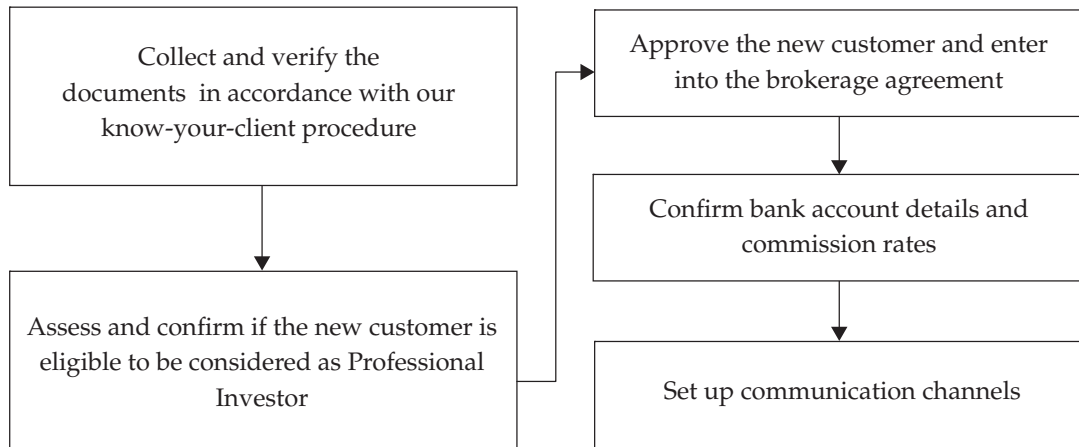
OPERATING PROCEDURES

Our Group's operating procedures include customer onboarding, trade matching and execution and settlement. Set out below is each of the procedures in detail.

BUSINESS

Customer onboarding

The following flowchart illustrates our standard procedures when onboarding a new customer:



Collect and verify the documents from the new customer in accordance with our know-your-client procedure

When onboarding a new customer, our Group will collect documents from the potential customer, including but not limited to its incorporation documents, business registration documents, licensing documents, bank account details and contact information. Our compliance team will also ask for an authorised trader list from the new customer and discuss with its representative to understand the new customer's investment experience and objectives.

After collecting the required documents from the potential customer, our compliance team will independently review and verify the information provided to ensure all required details are sufficiently and accurately provided by the potential customer.

Assess and confirm if the new customer is eligible to be considered as Professional Investor

Due to our licence constraint, our Group is only able to provide services to Professional Investors. Therefore, before entering into a contract with the new customer, our Responsible Officers would conduct an assessment to ensure the potential customer is eligible to be considered as Professional Investors.

After the Responsible Officers conduct the assessment, our compliance team will issue a notification to the potential customer if the criteria of being considered as Professional Investor have been fulfilled. If the potential customer is successfully considered as a Professional Investor, our Responsible Officers will grant their approval to engage the new customer.

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If the potential customer is unable to fulfil the criteria set out for Professional Investors, our Group will notify the potential customer that our Group is not able to provide services to it due to our licence constraint.

Approve the new customer and enter into the brokerage agreement

After confirming the new customer's eligibility to be treated as a Professional Investor, our Group will prepare the brokerage agreement for the new customer. Once the brokerage agreement is endorsed by both parties, pursuant to which our Group can provide the brokerage services to the new customer. For details of the terms of the brokerage agreement, please refer to the paragraph headed "General terms of the brokerage agreement with our customers" in this section.

Confirm payment details, bank account details and commission rates

After entering into the brokerage agreement with the new customer, our finance department will collect the bank account details from and confirm the commission rates with the new customer. Some of these details may be directly included in the brokerage agreement depending on our customer's usual practice. The schedule of commission rates is usually separately signed and attached to the brokerage agreement.

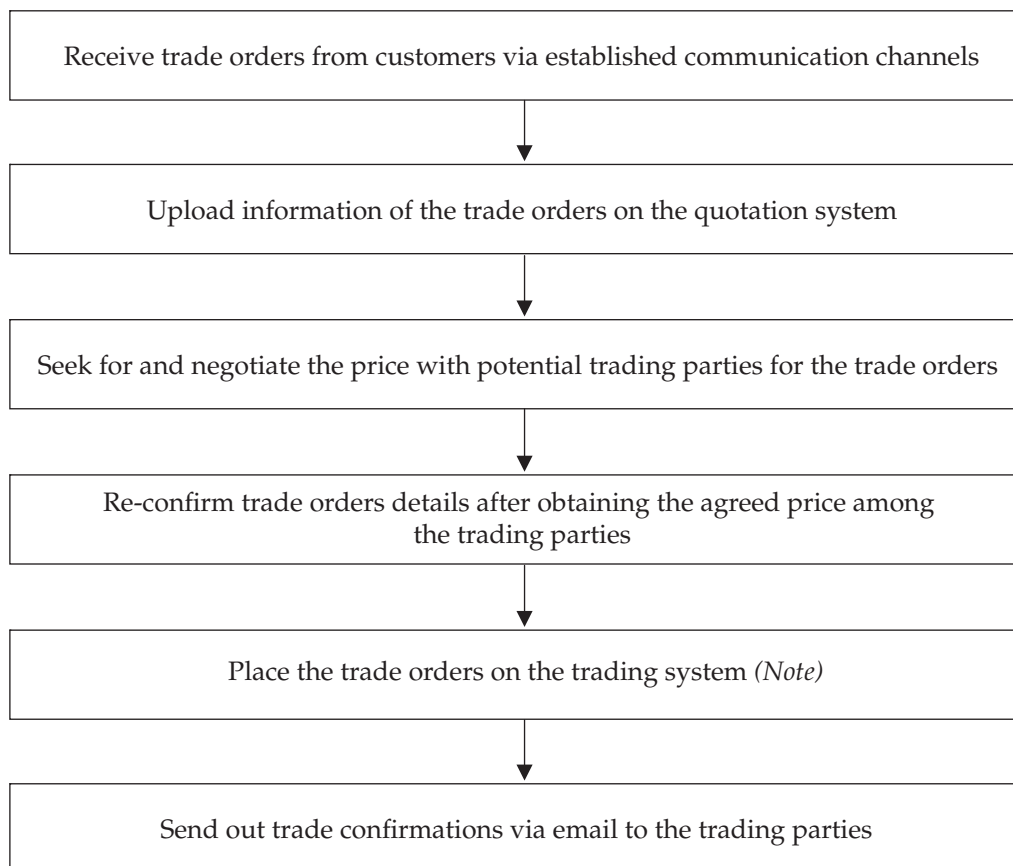
Set up communication channels

After confirming all the details, our Directors would instruct our IT team to set up the communication channels specifically and distinctively for the new customer. Our Group has strict policy in place to require our licensed brokers to use only these designated channels for communicating trade order information with our customers, such as direct-lines set up to our customers' offices, a registered online chatroom service platform provided by Service Provider F, and emails. All of the communication records would be stored in our servers for record keeping purpose.

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Matching and execution of trade orders

The following flowchart illustrates the matching and execution procedures of our trade orders:



Note: Only apply to trade orders for listed derivatives

As shown above, our trade orders matching and execution process comprises of a number of steps. When a trade order is received from our customers, our licensed brokers will promptly search for potential trading parties through our customer network to match up the trade order, and continuously liaise and negotiate among the potential trading parties until an agreed price and trading size are matched. After finalising the terms of the trade order, we will send out trade confirmations to the trading parties and execute the trade order.

The matching and execution process of trade orders as illustrated in the flow chart shown above does not apply to open trade orders which are directly placed on the online trading platform of the exchange. For these open trade orders, our licensed brokers directly place the open trade order on the online trading platform and the confirmation will be sent to our customers after the open trade orders are matched and executed on the trading system.

BUSINESS

During the Track Record Period, De Riva generally executed our HKEx futures and options trade orders directly on the HKATS through its own trading right (De Riva is currently a HKFE Exchange Participant). De Riva also has signed an agreement with another execution broker, who offered an online trade execution platform to De Riva for executing our HKEx futures and options trade orders. During the Track Record Period, part of our HKEx futures and options trade orders were executed through our execution broker using the online trade execution platform. The main reason for using an execution broker to execute HKEx futures and options trade orders is that the execution broker could provide us with an alternative source of trade order matching process.

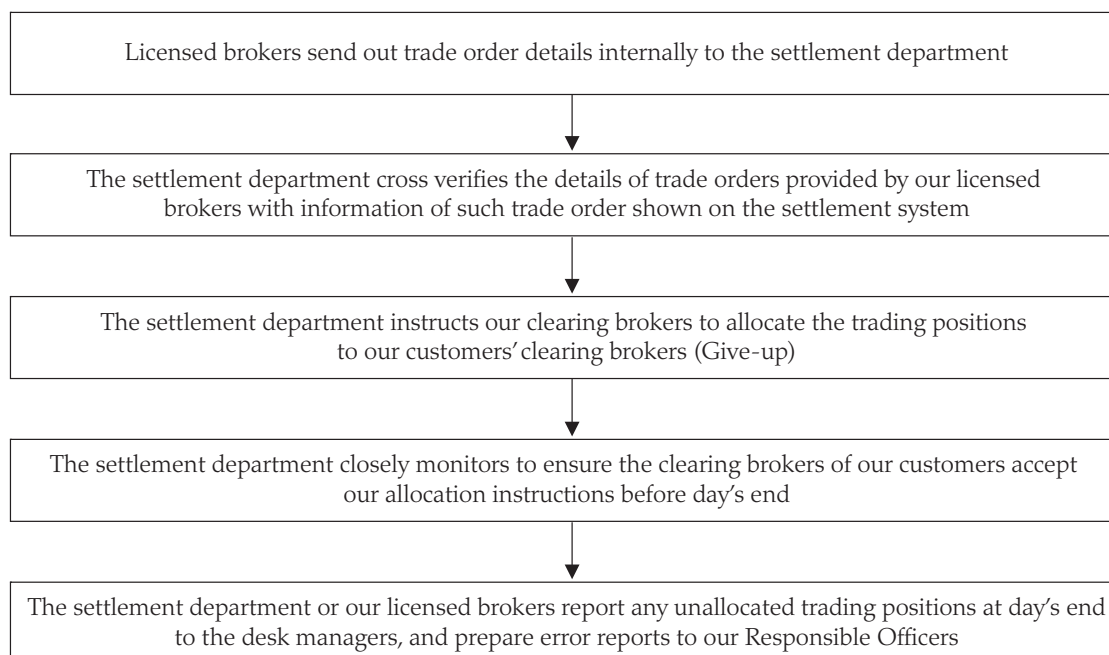
As for single stock options, during the Track Record Period, our Group executed all single stock options trade orders through our execution broker in Hong Kong.

For derivatives traded on the SGX, our Group executed the trade orders through our execution brokers who are licensed with the corresponding trading rights. For details of our execution brokers, please refer to the paragraph headed “Our services providers” under this section.

For derivatives traded OTC, our Group is not involved in any execution. De Riva purely acts as an agent to arrange for and match trade orders for the trading parties, and the trading parties are directly responsible for executing and settling the trade orders themselves.

Settlement

After a trade order is executed, our settlement department will work closely with our licensed brokers to ensure all trade orders are properly recorded and efficiently handled. The following flowchart illustrates our settlement procedures:



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As shown above, our settlement department plays an important role in our risk control. After our licensed brokers execute the trade, our settlement department will cross verify the trade order details provided by our licensed brokers internally to ensure all trade orders are executed correctly. In cases of any execution error, our settlement department will immediately report the error to our licensed brokers who executed the trade, and such licensed brokers will rectify the errors after obtaining our desk manager's approval. Any profits or losses due to such errors will be reported to our desk managers at day's end and acknowledged by our Responsible Officers.

After verifying the trade order details, our settlement department will allocate the trading positions under our accounts to our customers. This allocation process is executed by our settlement department via a specialised clearing, matching and allocation system provided by our clearing brokers and/or execution brokers. Through this allocation system, our settlement department will closely monitor the clearing brokers of our customers to pick up our allocation orders such that the trading positions would be transferred to the account designated by our customers on the same day as the trade is executed. Our allocation orders are also automatically synced to the clearing and settlement system of the clearing house, who is responsible for collecting the payment and clearing the trades. After the clearing brokers of our customers confirm and accept our allocation orders, the trading positions will be transferred to our customers' designated account through the clearing and settlement system of the clearing house (i.e. give-up), and our customers will be responsible for settling the payment of the transactions.

Facilitation

During the Track Record Period, when providing our brokerage services, some of the trade orders may have mismatches between the trading parties in terms of price and/or quantity. Our desk managers might approve to facilitate the trade order by filling in the mismatch on the condition that the facilitation cost could be acceptable by our Group and generally profit could be secured by the commission generated from the trade order. The major reason for providing facilitation services to our customers is to help our customers to complete their trade orders. Our Directors believe our facilitation service is important to our business as it improves our overall services quality and helps us maintain good relationships with our customers.

When facilitating trade orders of price mismatches, our licensed brokers would first calculate the amount of potential loss to be incurred, which is equivalent to the difference in the two prices placed by the trading parties, times the quantity of the trading positions involved plus any transactions fees incurred. The amount of potential loss will then be compared to the commission fees of such trade order, and after confirming that profits could still be retained, our licensed brokers will confirm the trade order with our customers and execute the trade.

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As for trade orders of quantity mismatches, to facilitate the trade order, our licensed brokers will have to acquire trading positions from the open market to fill in the mismatched quantity gap to fulfill the trading positions requested by one side of the trading party so as to fully match up the trade order. Prior to acquiring the trading positions from the open market, our licensed brokers will first look into the market price and estimate the amount of potential loss to be incurred, which is equivalent to the quantity of the trading positions to be acquired times the difference between our purchase price and our selling price to our customers, plus any transactions fees incurred. The loss will then be compared to the commission fees of such trade order, and after confirming that profits could be retained, our licensed brokers would confirm the trade order and immediately acquired the required trading positions from the market to directly fill in the trade order.

Due to the above, it is the general practice of our Group that, when facilitating a trade order, any trading positions directly taken up by our Group would be immediately closed out at a pre-determined price requested by our customers when the trade order is executed. As such, our Group in general has limited market risks exposure when facilitating a trade order as the facilitation costs are already acknowledged by our licensed brokers before the trade order is executed. However, if there is a substantial change in market conditions between the period we confirm the trade order and we execute the trade order, we might not be able to provide facilitation at the facilitation costs we had estimated. For further details, please refer to the section headed "Risk factors – Our profitability will be affected by any material market fluctuation during our facilitation process".

During the Track Record Period, our Group provided facilitations primarily to customers trading HKEx listed derivatives products. When deciding whether to facilitate a trade, our Group would in general take into account (i) our relationship with the customers; (ii) their previous trading volume with our Group; and (iii) whether our Group is able to immediately source an opposite party in the open market to close out the trading position. After completing the facilitation, our actual facilitation costs will be recorded in the error report, which may be different from the costs we estimated due to market volatility as mentioned. In addition, our Group does not facilitate OTC derivatives products as such facilitation would expose our Group to counterparty risks.

Since both error trades and facilitations were treated by our Group in the same manner in terms of the reporting procedures in the past, our Group did not specifically distinguish facilitations from error trades in our error control reports during most of the Track Record Period. Since 13 December 2017, our Group has implemented a control measure to distinguish between error trades and facilitations, details of which are set out in the paragraph headed "Internal control — Error trade" in this section.

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SALES AND MARKETING

Our Directors consider that due to our proven track record and our established relationships with our existing customers, our Group is able to leverage on our existing customer base, reputation and our years of experience in derivatives brokerage in Hong Kong as an interdealer broker such that our Group does not rely heavily on marketing and promotional activities. Our licensed brokers are generally responsible for liaising and maintaining our relationships with our customers mainly through social events and keeping abreast of market developments and potential business opportunities.

OUR CUSTOMERS

Our customers primarily consist of investment banks, market makers and funds.

The table below sets out our revenue breakdown by types of customers during the Track Record Period:

	For the year ended 31 March					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Investment banks	46,788	77.7	44,528	74.5	60,545	78.9
Market makers	9,051	15.0	9,598	16.1	10,519	13.7
Funds	4,367	7.3	5,626	9.4	5,695	7.4
	<u>60,206</u>	<u>100.0</u>	<u>59,752</u>	<u>100.0</u>	<u>76,759</u>	<u>100.0</u>
Total	<u>60,206</u>	<u>100.0</u>	<u>59,752</u>	<u>100.0</u>	<u>76,759</u>	<u>100.0</u>

During the Track Record Period, our total number of customers slightly increased. The following table sets out the movement of the number of customers during the Track Record Period:

	As at 31 March		
	2016	2017	2018
Total customers maintained at the beginning of the period	57	76	78
New customers intake	19	5	7
Existing customers left or closed accounts	—	(3)	—
	<u>76</u>	<u>78</u>	<u>85</u>
Total customers maintained at the end of the period	<u>76</u>	<u>78</u>	<u>85</u>

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1. 36, 41 and 38 of our active customers as at 31 March 2016, 31 March 2017 and 31 March 2018 were existing customers, respectively, and among which 34 of them remained our active customers during the Track Record Period. These active customers collectively contributed approximately 94.9%, 99.8% and 98.2% of our total revenue for the respective periods; and
2. 14, 4 and 6 of our active customers as at 31 March 2016, 31 March 2017 and 31 March 2018 were new customers, respectively, who onboarded with De Riva within the immediately preceding financial year, and these customers contributed 5.1%, 0.2% and 1.8% of our total revenue for the respective periods.
3. 5, 1 and 1 of our new customers as at 31 March 2016, 2017 and 2018 were inactive customers who only signed engagement with the Group but did not trade or contributed to the total revenue of our Group during the corresponding periods.
4. For the purposes of this document, active customers are customers who have traded through our Group in previous 12 months.

Our major customers

For each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, our largest customer accounted for approximately 8.7%, 10.5% and 10.0% of our total turnover, respectively. Our five largest customers, in aggregate, accounted for approximately 35.9%, 41.0% and 46.1% of our total turnover, respectively.

Set out below is a breakdown of our revenue attributed by our five largest customers during the Track Record Period and their respective background information:

For the year ended 31 March 2016

Customer	Brokerage services provided	Approximate year(s) of business relationship	Credit term	Payment method	Revenue derived from the customer	
					HK\$'000	%
Customer A	HKEx/SGX/OTC	4	One month	Bank transfer	5,268	8.7
Customer B	HKEx/SGX/OTC	4	One month	Bank transfer	4,678	7.8
Customer C	HKEx/OTC	4	One month	Bank transfer	4,026	6.7
Customer D	HKEx/SGX/OTC	4	One month	Bank transfer	3,835	6.4
Customer E	HKEx/SGX/OTC	4	One month	Bank transfer	3,801	6.3
Five largest customers combined					21,608	35.9
All other customers					38,598	64.1
Total					60,206	100.0

BUSINESS

For the year ended 31 March 2017

Customer	Brokerage services provided	Approximate year(s) of business relationship	Credit term	Payment method	Revenue derived from the customer	
					HK\$'000	%
Customer B	HKEx/SGX/OTC	4	One month	Bank transfer	6,230	10.5
Customer D	HKEx/SGX/OTC	4	One month	Bank transfer	5,033	8.4
Customer E	HKEx/SGX/OTC	4	One month	Bank transfer	4,783	8.0
Customer C	HKEx/OTC	4	One month	Bank transfer	4,536	7.6
Customer F	HKEx/SGX	4	One month	Bank transfer	3,898	6.5
Five largest customers combined					24,480	41.0
All other customers					35,272	59.0
Total					59,752	100.0

For the year ended 31 March 2018

Customer	Brokerage services provided	Approximately year(s) of business relationship	Credit term	Payment method	Revenue derived from the customer	
					HK\$'000	%
Customer B	HKEx/SGX/OTC	4	One month	Bank transfer	7,688	10.0
Customer D	HKEx/SGX/OTC	4	One month	Bank transfer	7,609	9.9
Customer E	HKEx/SGX/OTC	4	One month	Bank transfer	7,134	9.3
Customer C	HKEx/SGX/OTC	4	One month	Bank transfer	6,847	8.9
Customer G	HKEx/SGX/OTC	4	One month	Bank transfer	6,123	8.0
Five largest customers combined					35,401	46.1
All other customers					41,358	53.9
Total					76,759	100.0

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Customer A includes various subsidiaries of a France-based group listed on the Euronext Paris and is principally engaged in providing financial services including, retail banking, corporate and investment banking, insurance, private banking and asset management, and offering a wide range of advisory services and tailored financial solutions to individual clients, large corporate and institutional investors, covering over 60 countries with headquarters in Paris. As per the 2017 annual report of the holding company of Customer A, it recorded a gross operating income of approximately EUR6.1 billion.

Customer B includes various subsidiaries of a group which is a global market maker focused on pricing, execution and risk management with offices in Chicago, Sydney, Shanghai, London, Taipei, and Hong Kong with headquarters in Amsterdam. As per the 2017 annual report of the holding company of Customer B, it recorded a trading income of approximately EUR1.1 billion.

Customer C is a subsidiary of a company listed on the New York Stock Exchange, which is a global investment banking, securities and investment management firm that provides a wide range of financial services to a client base that includes corporations, financial institutions, governments and individuals with headquarters in New York. As per the 2017 annual report of the holding company of Customer C, it recorded a net revenue of approximately USD32.1 billion.

Customer D includes various members of a group listed on the New York Stock Exchange, which is a global financial institution operating in more than 60 countries and providing investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management with headquarters in New York. As per the 2017 annual report of the holding company of Customer D, it recorded a total net revenue of approximately USD99.6 billion.

Customer E is a subsidiary of a company listed on the HKEx, the London Stock Exchange, the New York Stock Exchange, the Paris Stock Exchange and the Bermuda Stock Exchange, which is a global banking and financial services organisation providing retail banking and wealth management, commercial banking, global banking and markets, and global private banking covering over 60 countries and territories in Europe, Asia, the Americas, the Middle East and North Africa, with headquarters in London. As per the 2017 annual report of the holding company of Customer E, it recorded a total operating income of approximately USD63.8 billion.

Customer F is a subsidiary of a company listed on the Tokyo Stock Exchange, the Nagoya Stock Exchange, and the New York Stock Exchange, which is a global investment bank with an integrated network, serving the needs of individuals, institutions, corporates and governments through three segments including, retail, asset management and wholesale, covering 30 countries with headquarters in Tokyo. As per the 2017 annual report of the holding company of Customer F, it recorded a net revenue of approximately JPY1,403.2 billion.

Customer G is a subsidiary of a company listed on the SIX Swiss Exchange and the New York Stock Exchange, which mainly serves its clients through offering

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comprehensive advice and a wide range of financial solutions to private, corporate and institutional clients, and delivering integrated advisory services and solutions to ultra-high-net-worth, entrepreneur and corporate clients, with operations in about 50 countries and more than 46,000 employees from over 150 different nations with its headquarters in Switzerland. As per the 2017 annual report of the holding company of Customer G, it recorded a net revenue of approximately CHF21.8 billion.

Mr. Lau, one of our executive Directors, joined De Riva as a managing director in June 2017. Before joining De Riva, Mr. Lau worked for Customer C from July 2001 to February 2016 with the last held position as managing director of the securities division. Mr. Lau has more than fifteen years of experience in derivatives trading, and did place and execute trade orders of derivatives through De Riva as an authorised trader when he was working for Customer C.

For the year ended 31 March 2016, 2017 and 2018, the revenue of our Group contributed by Customer C were approximately HK\$4.0 million, HK\$4.5 million and HK\$6.8 million, which represented approximately 6.7%, 7.6% and 8.9% of our Group's total revenue, respectively. Despite the fact that the revenue from Customer C increased by approximately 51.1% from the year ended 31 March 2017 to the year ended 31 March 2018, our Directors are of the view that such increase in revenue was not particularly related to the joining of Mr. Lau as our other top customers such as Customer D and Customer E also recorded similar percentage increase in revenue during the same period, being 52.0% for Customer D and 47.9% for Customer E, respectively. Our Directors are of the view that our Group has developed a very good business relationship with Customer C, as our Group first started our business relationship with Customer C in 2010 by signing a give-up agreement and the existing management continued the business relationship with Customer C in 2013. Mr. Lau also confirms that he was not involved in our Group's engagement with Customer C for the provision of derivatives brokerage services in 2010. Our Directors consider that Mr. Lau is not responsible for the front line operation at our trading desks nor would he manage our trading with Customer C directly, the joining of Mr. Lau would not and did not have any material impact on either our Group's relationship with Customer C or the revenue attributable to Customer C in the future. For more details of Mr. Lau, please refer to the section headed "Directors and senior management" in this document.

Save as disclosed above, all of our Group's top five customers during the Track Record Period are Independent Third Parties. Our Directors confirm that, to the best of their knowledge and after making reasonable enquiries, none of our Directors, their respective close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, has any interest (direct or indirect) in any of our five largest customers during the Track Record Period.

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General terms of the brokerage agreement with our customers

The main terms of agreements entered into between De Riva and our customers were generally standard and prepared in consultation with the FIA, FOA and MFA. Contract terms of the agreements normally include such terms as customer's authorisation for brokers to execute trade orders on their behalf, commission rate, billing method and termination conditions. A summary of the key terms of our brokerage agreements are summarised below:

Trade order execution authorisation

Customers authorise De Riva to execute trade orders for them as transmitted orally, in writing or through an electronic order facility.

Settlement and clearance authorisation

Customers authorise the clearing broker to clear all trade orders executed by and transmitted from De Riva.

Commission rate

The commission rate (i.e. brokerage fee) to be received by De Riva for its services is determined either based on the number of contracts traded or the notional value traded.

Billing method

De Riva generally bills commissions per contract as specified in the addendum or rate schedule in the brokerage agreement on a monthly basis.

Responsibility of contracting parties

Customers are responsible for accurate and valid placement of their trade orders, whether orally, in writing or through an electronic order facility.

The main responsibility of De Riva involves cross verifying that all trade orders are placed and executed by us upon the request and authorisation of our customers. In addition, De Riva is responsible for confirming the terms of the trade orders with our customers if customary and practicable upon the placement of the trade orders; accurate execution of the trade orders; and transmitting executed orders to the clearing broker as soon as practicable, but in no event later than the period mandated by exchange or clearing house rules on which they are executed (if any).

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Contractual period and termination

The brokerage agreements with our customers in general do not contain a specified contractual period. Therefore, our brokerage services would normally continue unless our customers confirm with us the termination of the agreement through prior written notice.

During the Track Record Period and up to the Latest Practicable Date, our Group did not have any material disagreements with our customers over the commission rate, the credit terms or the amount payables.

COMPETITIVE LANDSCAPE

According to the CIC Report, between 2012 and 2016, the market size of the derivatives brokering industry in terms of brokerage fees income in Hong Kong increased from HK\$2.5 billion to HK\$4.1 billion at a CAGR of 13.3%. Further, due to the volatility of base financial tools, limitation and turbulence of the mainland's security market, increase in wealthy investors and promotion of market efficiency, the total market size of the derivatives brokerage industry is forecasted to reach HK\$7.1 billion in 2022 at a CAGR of 9.8% from 2017.

As of June 2018, there were a total of 9 General Clearing Participants, 160 Clearing Participants, and 22 non-clearing participants on the HKFE with a type 2 licence issued by the SFC, of which 15 of them were providing broking services to external parties on derivatives contracts. The rest of the licensed corporations either were engaged only in proprietary trading or had ceased providing broking services.

The competition focuses in the industry in which our Group operates, including: (i) regulatory requirements; (ii) capital requirements; (iii) expertise knowledge; and (iv) IT infrastructure.

For further information regarding the competitive landscape of the industry in which our Group operates, please refer to the section headed "Industry overview" in this document.

OUR PRICING POLICY

During the Track Record Period, our Group did not offer monthly-fixed-charge plans or commission ceiling plans to our customers. Our commissions charges were market rates arrived at after arm's length negotiations among our Group and our customers and taking into account the prevailing market prices and the complexity of the trade combinations we could source and execute or match for our customers.

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Calculation methods and basis

There are two methods in calculating the fees for the trade orders we execute, which are (i) fixed fee per contract; and (ii) fixed percentage on the notional value traded. For fixed fee per contract, a fixed dollar amount is charged per futures and options contract. For fixed percentage on the notional value traded, the notional value is calculated based on the following equation:

$$\text{notional value} = Q \times C \times P$$

where

- (i) Q represents the trading volume (i.e. the number of the derivatives contracts traded);
- (ii) C represents the contract multiplier which varies for different types of derivatives contracts; and
- (iii) P represents the spot price of the underlying assets, which varies for different derivatives contracts and different trade combinations. For details of the major trade combinations we executed for our customers, please refer to the paragraph headed “Our brokerage services — Our major trade combinations” in this section.

Pricing terms

The tables below set out the breakdown of the general pricing terms by type of products and fee types (i.e. fixed fee per contract or fixed percentage on the notional value traded during the Track Record Period).

HKEx

During the Track Record Period, the Hong Kong listed futures and options products were charged by either (i) fixed fee per contract or (ii) fixed percentage on notional value traded in Hong Kong dollars.

	For the year ended 31 March					
	2016		2017		2018	
	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>
Listed index futures and options						
– per contract (HK\$)	5	50	5	50	5	50
– per notional (bps)	0.2	35	0.2	30	0.2	30
Single stock options						
– per notional (bps)	1	2	1	2	1	2

Note: The pricing terms can vary drastically between different products even for the same customer depending on factors including but not limited to the complexity of the structure and the maturity of the products.

BUSINESS

SGX

During the Track Record Period, the SGX futures products were charged by either (i) fixed fee per contract and (ii) fixed percentage on notional value traded in either USD or SGD.

	For the year ended 31 March					
	2016		2017		2018	
	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>
Listed futures (<i>Note</i>)						
– per contract (USD)	0.25	1	0.25	1	0.2	1
– per notional (bps)	0.3	0.5	0.3	0.5	0.3	1

Note: all commission fees received in terms of SGD during the Track Record Period were converted to USD at market rate and were taken into account in this summary.

OTC

During the Track Record Period, the OTC products were charged by a fixed percentage of the notional value traded in Hong Kong dollars.

	For the year ended 31 March					
	2016		2017		2018	
	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>	<i>min</i>	<i>max</i>
OTC products						
– per notional (bps)	0.25	2	0.25	2	0.2	2

Our Directors are of the view that the pricing terms of our Group were comparable to other market players in the industry.

Factors affecting the pricing terms

Our pricing terms are generally affected by (i) the type of underlying; (ii) the type of product (i.e. options, futures, etc.); (iii) the trade combinations; (iv) the maturities of the derivatives; and (v) the channel of execution (i.e. through exchange or OTC). In addition, commission rates also vary for different customers and are generally dependent on their years of relationship and levels of trading volume with our Group.

Brokerage agreement

In the brokerage agreement signed between De Riva and our customers, our customers would specify which calculation method to be used for each type of derivatives. Also, each type of derivatives would be specified with a separate commission rate. The commission rates also vary for the same type of derivatives across different markets.

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Besides type of derivatives, commission rates and calculation methods may also vary for different trade combinations, depending on our customers' requests on the brokerage agreement. As shown in the paragraph headed "Our brokerage services — Our major trade combinations" in this section, these trade combinations often involve a combination of index options, index futures, and/or single stock options with different trading positions, strike prices and expiration dates. As these specific trade combinations are typically viewed as a single product by our customers, our Group usually charges these trade combinations with a separate commission rate specified on our brokerage agreements with our customers.

Due to the above reasons, during the Track Record Period, our commission rates for each derivatives type varied significantly due to differences in the underlying market, the type of derivatives and the trade combinations.

Our customers may occasionally request us to provide a better offer such as lowering the brokerage commission rate offered by our Group. In consideration of whether to provide a better offer to our customers, our Group would in general take into account of (i) whether such customers will increase their orders to compensate the reduction of brokerage commission rate; (ii) the past level of business with such customers; and (iii) the prevailing market conditions and the competition environment. During the Track Record Period, our Group has lowered the brokerage commission rate for certain of our major customers and generally such reduction of brokerage commission rate has been able to be compensated by the increase in trading volume by such customers which resulted in a relatively stable revenue during our Track Record Period.

OUR SERVICE PROVIDERS

Our Group does not have any major supplier due to our business nature. However, during the Track Record Period, our Group engaged various service providers to provide us with the services necessary for our business operations. Our top five service providers include clearing brokers, execution brokers, a market data vendor, and a network service provider.

For each of the three years ended 31 March 2016, 2017 and 2018, our largest service provider accounted for approximately 40.9%, 18.6% and 36.8% of our total other operating expenses respectively. Our five largest service providers, in aggregate, accounted for approximately 70.4%, 68.5% and 60.1% of our total other operating expenses respectively.

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Set out below is a breakdown of our other operating expenses by our five largest service providers during the Track Record Period and their respective background information:

For the year ended 31 March 2016

Service provider	Major services provided	Approximate year(s) of business relationship	Credit term	Payment method	Transaction amount	
					HK\$'000	%
Service Provider A	Clearing service	4	One month	Cheque	6,189	40.9
Service Provider D	Execution service	3	10 days/ 2 weeks	Telegraphic transfer/cheque	1,779	11.8
Service Provider F	A business terminal providing financial market information, and communication channels	4	28 days	Telegraphic transfer	1,725	11.4
Service Provider C	Execution service	4	One month	Telegraphic transfer	714	4.7
Service Provider G	Voice line	4	30 days	Cheque	242	1.6
Five largest service providers					10,649	70.4
All other service providers					4,470	29.6
Total other operating expenses					15,119	100.0

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For the year ended 31 March 2017

Service provider	Major services provided	Approximate year(s) of business relationship	Credit term	Payment method	Transaction amount	
					HK\$'000	%
Service Provider A	Clearing service	4	One month	Cheque	3,304	18.6
Service Provider B	Clearing service	1	N/A	Offset deposit account	3,149	17.7
Service Provider D	Execution service	3	10 days/ 2 weeks	Telegraphic transfer/cheque	2,312	13.0
Service Provider F	A business terminal providing financial market information, and communication channels	4	28 days	Telegraphic transfer	1,940	10.9
Service Provider C	Execution service	4	One month	Telegraphic transfer	1,478	8.3
Five largest service providers					12,183	68.5
All other service providers					5,595	31.5
Total other operating expenses					17,778	100.0

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For the year ended 31 March 2018

Service provider	Major services provided	Approximately year(s) of business relationship	Credit term	Payment method	Transaction amount	
					HK\$'000	%
Service Provider B	Clearing service	1	N/A	Offset deposit account	6,125	36.8
Service Provider F	A business terminal providing financial market information, and communication channels	4	28 days	Telegraphic transfer	1,944	11.7
Service Provider C	Execution service	4	One month	Telegraphic transfer	1,197	7.2
Service Provider D	Execution service	3	10 days/ 2 weeks	Telegraphic transfer	376	2.2
Service Provider G	Voice line	4	30 days	Cheque	<u>358</u>	<u>2.2</u>
Five largest service providers					10,000	60.1
All other service providers					<u>6,641</u>	<u>39.9</u>
Total other operating expenses					<u>16,641</u>	<u>100.0</u>

A. Clearing brokers

De Riva is a HKFE Exchange Participant without clearing participantship, and is required by the HKFE to appoint and outsource our clearing functions to a General Clearing Participant who acts as a clearing broker to provide clearing services to De Riva.

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During the Track Record Period, De Riva replaced its clearing broker (i.e. Service Provider A) once. As at the Latest Practicable Date, De Riva's clearing broker is Service Provider B. As confirmed by our Directors, the replacement of our clearing broker from Service Provider A to Service Provider B was due to better terms offered by Service Provider B. Set out below are the major terms of the service agreement with our clearing brokers:

Material terms of agreements with our clearing brokers

De Riva has engaged two clearing brokers for two separate periods. Set out below are the major terms of the service agreements with our clearing brokers:

- (i) Scope of services: a specified scope of clearing and settlement services are agreed by the clearing broker to De Riva, which includes the give-up arrangement and the settlement and clearance process.
- (ii) Agreed fee: service fees are charged and calculated based on the number of contracts transacted through the clearing brokers. Such fee scale is generally agreed after arm's length negotiations.
- (iii) Termination: in general, our agreements with the clearing brokers shall continue to be valid unless the agreements are terminated. A typical agreement may be terminated by either party by giving the other party a prior written notice.
- (iv) Deposit: De Riva is contractually obliged by the agreement to pay and maintain a deposit of a specified level in the clearing broker's account as security. The clearing broker is authorised by the agreements to deduct from such deposit any loss, damages, costs, fees, or expenses resulting from or incurred in connection with the agreement. During the Track Record Period, the deposit maintained and paid by our Group to Service Provider A and Service Provider B were HK\$2,000,000 and HK\$4,000,000, respectively.

Our agreements with our clearing brokers generally do not contain any exclusivity clauses restricting them from providing services to their other clients.

During the Track Record Period, our Group paid our clearing brokers (i) clearing fees for settlement and clearance of trade orders on the HKEx; and (ii) exchange fees incurred by our clearing brokers for the error and facilitation of the trade orders. In addition, our Group also paid our clearing brokers to settle our any losses incurred by our clearing brokers on behalf of our Group as a result of our error trades or our facilitations of trade orders.

Service Provider A is a subsidiary of a company listed on the HKEx and the Shanghai Stock Exchange. Service Provider A engages in the provision of broking services of financial products. The fees paid to Service Provider A amounted to approximately HK\$6.2 million, HK\$3.3 million and nil for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively. In September 2016, De Riva has appointed

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Service Provider B as a replacement for the provision of clearing services previously provided by Service Provider A. During the Track Record Period, the fees paid by our Group to Service Provider A for the clearing service ranged from HK\$1.0 per lot to HK\$1.5 per lot, and the average fees paid by our Group to Service Provider A for the clearing service is approximately HK\$1.13 and HK\$1.5 per lot for the two years ended 31 March 2016 and 2017 respectively.

Service Provider B includes various subsidiaries of a company listed on the Euronext Amsterdam. Service Provider B engages in the provision of transaction processing, financial logistics and risk management. The fees paid to Service Provider B amounted to nil, approximately HK\$3.1 million and approximately HK\$6.1 million for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively. Service Provider B also provides us with a credit facility of EUR2.5 million by maintaining a deposit of HK\$4.0 million. During the Track Record Period, the facility has been fully utilised once and the fees paid by our Group to Service Provider B for the clearing service is HK\$1.0 per lot.

During the Track Record Period, our Directors confirm that none of our clearing brokers were our customers or have any signed brokerage agreement with us other than the abovementioned service agreements.

B. Execution brokers

During the Track Record Period, De Riva has entered into arrangements with a number of execution brokers, including Service Provider C, Service Provider D and Service Provider E, in order to provide derivatives brokerage services for SGX listed derivatives and HKEx listed single stock options as De Riva does not have the relevant trading rights.

Material terms of agreements with our execution brokers

Our execution brokers agreed with De Riva to provide a range of trade orders execution services to our Group in accordance with the terms of their respective service agreements signed with De Riva. Set out below are the key terms of the service agreements:

- (i) Scope of services: a specified scope of trade execution services are agreed by the execution brokers to De Riva, which includes details of the trade order execution process, the give-up arrangement, the type of derivatives that are covered and the details of the electronic trading system supported by the execution broker.
- (ii) Agreed fee: a commission fee based on the number of contracts executed or the notional value traded is charged by the execution brokers on a monthly basis. Such fee scale is generally agreed after arm's length negotiations of our Group with the execution brokers. In addition, De Riva is responsible for any exchange fees and/or clearing house fees incurred in the trade order execution and/or settlement process.

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- (iii) Termination: in general, our agreements with the execution brokers shall continue to be valid unless the agreements are terminated. A typical agreement may be terminated by either party giving the other party a prior written notice.

Our agreements with our execution brokers generally do not contain any exclusivity clauses restricting them from providing services to their other clients.

During the Track Record Period, our Group paid our execution brokers clearing fees for the execution and settlement of the trade orders, and exchange fees incurred for our error trades and facilitations of the trade orders. Our Group also settled with our execution brokers the losses incurred by them on behalf of our Group as a result of our error trades or our facilitation of trade orders.

Service Provider C includes various members of a financial holding corporation listed on the Taiwan Stock Exchange, principally engaged in the provision of range of financial services including securities, derivatives and foreign exchange. Service Provider C provides us with the execution service of derivatives traded on the SGX. The fees paid to Service Provider C amounted to approximately HK\$0.7 million, HK\$1.5 million and HK\$1.2 million for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively. During the Track Record Period, the fees paid by our Group to Service Provider C for the clearing service is US\$0.4 per lot for Nikkei index products, US\$0.1 per lot for FTSE China A50 Index products, and US\$0.15 per lot for the other products.

Service Provider D is a subsidiary of a company principally engaged in the provision of clearing and settlement services to the clients which allow them to connect to and trade with derivatives markets in the world. Service Provider D provides us with the execution service of derivatives traded on the HKEx and SGX. The fees paid to Service Provider D amounted to approximately HK\$1.8 million, HK\$2.3 million and HK\$0.4 million for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively. During the Track Record Period, the fees paid by our Group to Service Provider D for the execution service of HKEx listed products is HK\$1.3 per lot plus a trading system fee of US\$0.36 per lot, and for the execution service of SGX listed products is US\$0.16 per lot plus trading system fee of US\$0.36 per lot.

Service Provider E is a subsidiary of an integrated financial services group listed on Bursa Malaysia Berhad and principally engaged in, among others, commercial banking, investment banking, stock broking, asset management. Service Provider E provides us with the execution service of single stock options traded on the SEHK. The fees paid to Service Provider E amounted to approximately HK\$102 thousand, HK\$91 thousand and HK\$331 thousand for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively. During the Track Record Period, the fees paid by our Group to Service Provider E for the execution service is 2% of the contracted value.

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During the Track Record Period, our Directors confirm that none of our execution brokers were our customers or have any signed brokerage agreement with us other than the abovementioned service agreements.

C. Market data vendor

Service Provider F is our market data vendor who runs a specialised business network and business terminal in the financial industry, providing market news and real-time market data that enables our Group to provide market information required by our customers in a timely manner. It also provides a communication platform for our licensed brokers and our customers to directly communicate through a chatroom, which enables our licensed brokers to receive and communicate the details of trade orders with our customers quickly and easily. The fees paid to Service Provider F amounted to approximately HK\$1.7 million, HK\$1.9 million and HK\$1.9 million for each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, respectively.

Set out below are the key terms of the service agreements:

- (i) **Scope of service:** the service provider provides a terminal service access (including communications circuits and facilities) which could be used by De Riva at a specific equipment address on a subscription basis. The subscription to the terminal services may be used by only one permitted user through one or more access points. The terminal services shall be made available to De Riva by means of equipment provided by the service provider of authorised computers.
- (ii) **Rights and warranties:** the service provider shall have all rights with respect to the equipment, including but not limited to access, and De Riva shall have all obligations and responsibilities with respect to equipment and authorised computers generally.
- (iii) **Agreed fee:** the terminal and network services are charged at a monthly unit price per subscription account. In addition, installations, upgrades, removals, relocations, conversions, equipment modifications and other changes related to the services will be charged separately at specified rates.
- (iv) **Term:** the service agreement is of a term of two years and shall be automatically renewed for successive two-year periods unless De Riva or the service provider elects not to renew by giving not less than 60 days' prior written notice. Upon termination of the service agreement, the service recipient shall pay any applicable charges including a termination charge based on the balance of the term, and any other fees imposed on the service provider by the provider of any network access.

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D. Network Services Provider

Service Provider G is a global network service provider who provides a private extranet to our Group that enables the communication and information exchange among our Group and our major customers through voice lines. For each of the three years ended 31 March 2016, 31 March 2017 and 31 March 2018, the fees paid to Service Provider G amounted to approximately HK\$242 thousand, HK\$342 thousand, and HK\$358 thousand.

Set out below are the key terms of the service agreements:

- (i) Scope of service: the service provider provides network services including the installation of the equipment for commissioning of voice applications, carrying out acceptance tests, and the maintenance and technical support of the network services.
- (ii) Rights and warranties: the service provider warrants it will provide the network services, the equipment and any other services provided under the service agreement with reasonable skill and care. De Riva is solely responsible for the content and security of any data or information which it sends or receives when using the network services. De Riva is also only permitted to use the equipment in connection with the network services and will not acquire any other rights in it. De Riva is also responsible for insuring the equipment.
- (iii) Agreed fee: a fixed charge per voice line is charged on a monthly basis.
- (iv) Term: the service agreement is of a term of 12 months and after the initial term it shall continue and be automatically renewed for periods of 12 months unless De Riva or the service provider terminates the agreement by giving 30 days' prior written notice.

During the Track Record Period and up to the Latest Practicable Date, save as the one-off short business disruption as set out in the paragraph headed "Our business strategies — To apply for becoming a Clearing Participant" in this section, our Group had not experienced any material disruption in using services provided by our top five service providers.

All of our Group's top five service providers during the Track Record Period are Independent Third Parties. Our Directors confirm that, to the best of their knowledge and after making reasonable enquiries, none of our Directors, their respective close associates, or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, has any interest (direct or indirect) in any of our Group's top five service providers during the Track Record Period.

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DATA PROTECTION

Our Group has data protection policy in place which assigns different users with different levels of access according to their ranks and needs. Each user is required to keep its password confidential and reset of passwords will be enforced by the system for every 180 days.

Our Directors are responsible for reviewing the access authorities periodically and any changes in access rights must be approved by our Directors. Back-ups of all customers' transactions would be kept for at least seven years and stored at our offices and/or designated places outside our office premises.

IT SYSTEM

Our Directors believe that our IT infrastructure is of fundamental importance to our operations as it provides essential functional support to our daily operations, customer management, and risk management.

Our IT system, equipment and software were developed and maintained by Independent Third Parties. Our Group places strong emphasis on monitoring and upgrading our IT equipment on a timely basis, and for this reason our Group has established an IT department of two staff who are responsible for:

- (i) **supporting our operations:** establishing and maintaining IT systems to facilitate the monitoring of our business operations including, without limitation, reviewing derivatives trading activities, and customer onboarding status and allocating employee authorisation levels for conducting such reviews;
- (ii) **monitoring our IT systems:** monitoring our IT systems in good working order through regular maintenance and repair checks, implementing measures to prevent malfunctions and providing resolutions when malfunctions occur, devising IT emergency and contingency plans as well as managing and carrying out necessary system upgrades;
- (iii) **internet safety and security:** safeguarding our IT facilities (including computer rooms, servers, operating systems and data centres) and devising measures to safeguard the integrity of our IT systems through the establishment of firewalls and other security measures; and
- (iv) **development and enhancement of the provision of our trading services:** work closely with our independent software vendor to develop and enhance the efficiency of our online trading platform, computer screen interface as well as features of the software used on our online trading platform (including those for retrieving market and trade information, execution of trade orders and enhancing internal control measures).

Our information system expenses were approximately HK\$2.2 million, HK\$2.4 million, and HK\$2.4 million for each of the three years ended 31 March 2016, 2017 and 2018, respectively.

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INTERNAL CONTROL

Pursuant to the Code of Conduct, a licensed corporation should have internal control policies and measures in place to protect its operations, customers and other licensed or registered persons from financial loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions. Our Group has an internal control system in place for the purpose of the compliance with the Code of Conduct.

Our Directors collect information on the changing regulatory requirements constantly by attending seminars and studying enforcement news of the regulatory bodies. Our Group also has policies and procedures such as employees dealing, segregation of duties, policies on conflict of interests, policies on account opening and dealing practices. Our Responsible Officers periodically review our internal policy to cope with new development of the relevant laws and regulations. Our compliance team and the operational teams discuss and evaluate the needs for improvement in our internal control system from time to time depending on the needs and conditions of the daily operation.

Under the supervision of Mr. Lau and Mr. Choi, our executive Directors, who are responsible for handling compliance matters, internal control standards are set and various control measures are monitored as implemented by each operational department and trading team. The experience and qualifications of Mr. Lau and Mr. Choi are set out in the section headed "Directors and senior management" in this document.

All other operational departments are responsible for the implementation of the internal control measures based on the established policies and procedures. Our Responsible Officers are responsible for overseeing the daily operations of these departments and ensuring that the internal control procedures are being duly implemented.

In preparation of the [REDACTED], we engaged an independent internal control adviser (the "Internal Control Adviser") in May 2017 to perform a review of our internal control system (the "Internal Control Review"). The work scope of the Internal Control Review included documentation, testing and assessment of our procedures, systems and controls in respect of our operations and corporate governance. Through an initial review during May 2017, our Internal Control Adviser identified certain findings in our internal control system. Our Internal Control Adviser also recommended certain measures to be implemented by us in order to further consolidate our internal control policy. Our Group implemented the measures to improve our internal control system with reference to those recommendations. According to the results of the follow-up review performed by the Internal Control Adviser in October 2017, internal control measures for the key deficiencies have been adopted and implemented in accordance with the corresponding recommendations of the Internal Control Adviser, save for the measure in relation to error trade, for details please refer to section headed "Error trade" as below.

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Major findings and deficiencies were identified in the internal control review report. The recommendations made by the Internal Control Adviser and the remediation actions taken by our Group are set out in the following table:

Major findings and deficiencies	Recommendations	Remediation actions taken by the Group
<i>Maintenance of chart of accounts</i>		
<ul style="list-style-type: none">• The chart of accounts can be amended without written approval. Result of regular review has not been recorded to ascertain the appropriateness of the active accounts.	<ul style="list-style-type: none">• Written approval for initiation and modifications to the chart of accounts should be maintained.• Result of periodic review of the chart of accounts should be recorded.	<ul style="list-style-type: none">• Our Group has established and put into practice chart of accounts amendment form and the result of periodic review is properly recorded.• The procedure of maintenance of chart of accounts and regular review has been stipulated in operation manual.
<i>Error trade handling</i>		
<ul style="list-style-type: none">• There was a trading error which caused the loss of HK\$1.8 million in March 2016. One of the reasons was both licensed brokers and settlement department were not aware that the open trade order was executed on the trade reporting system on 24 March 2016 before the system was rebooted over the Easter holiday between 25 to 28 March 2016.	<ul style="list-style-type: none">• The procedures of handling the trade checking process should be clearly stipulated for staff to follow.• The licensed broker should double check the trade system if any open order placed overnight is executed in the morning of the following trade day; settlement department should check against the reporting of the trade system and confirm from the clearing broker and/or execution broker.• Surprise check should be carried out to ensure the operational procedure is effectively enforced	<ul style="list-style-type: none">• The operation manual has been updated and contained the procedures of handling the trade checking process. Also, the operation manual has been disseminated to the relevant staff to raise their awareness and remind them of the importance of such process.• The surprise checks have been conducted to ensure the operational procedure is effectively enforced by the relevant staff.

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Major findings and deficiencies	Recommendations	Remediation actions taken by the Group
<i>Payment authorisation</i>		
<ul style="list-style-type: none"> • A single signature is allowed to execute the cheque payment regardless of the amount. Dual control is not established in this aspect. 	<ul style="list-style-type: none"> • Payment approval matrix should be formulated to formalise the approving limits and respective authority for endorsing different activities. • Authorisation from two personnel is required to approve a payment. 	<ul style="list-style-type: none"> • Payment approval matrix has been formulated with different approving limits and respective authority. • The dual approval procedure for cheque payment has been established. Two signatories are required to execute the cheque payment.
<i>Information technology general control</i>		
<ul style="list-style-type: none"> • There was no password set up for back up tape. • There was no business continuity planning and disaster recovery plan prepared for emergencies and disruptions of computer system. 	<ul style="list-style-type: none"> • Effective password policy should be put in place for the backup of critical data. • There should be business continuity planning and disaster recovery plan of IT facilities. 	<ul style="list-style-type: none"> • Our Group has enforced effective password in the backup tapes to ensure that information assets are adequately protected. • Our Group has defined the business continuity planning and disaster recovery plan of IT facilities.

To further ensure our compliance with the relevant laws, rules, regulations, and codes in Hong Kong applicable to our business operation as a licensed corporation, our Group engaged an independent compliance service provider to review our compliance policy and provide compliance advices, on a timely basis, to our Directors and senior management.

Error Trade

Our Group's errors trades are generally resulted from unintentional human errors, such as miscommunication between our licensed brokers and our customers on the trade order details or data input errors when executing trade orders. When our licensed brokers become aware of any error trade, they must immediately report the error trade to their respective desk manager and our compliance team, who will then record and rectify the error trades as soon as possible. The licensed broker responsible for the error trade has to fill in an error report describing the event, actions taken, amount of profit or loss sustained by our Group due to the error trades. The error report, along with all supporting

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documents, will be reviewed and signed by our Responsible Officers by the end of the trading day that the error trade takes place. The error trade will then be included as other overheads in the profit or loss account in the monthly return form of De Riva as a licensed corporation to the SFC during the Track Record Period.

Besides filing error reports, our Group also has measures in place to monitor the risk exposure of our error trades. In order to ensure all error trades are discovered and rectified in a timely manner, our Group's settlement team will check through all trade orders executed by our licensed brokers from time-to-time during trading hours and will only proceed to give-up the trade orders to our customers after confirming there is no error in that trade order. For trade orders executed through our execution brokers, our settlement team would also closely communicate with our execution brokers to ensure all trade orders executed are correct and are all given up to our customers such that there are no outstanding trade positions left over to our Group by the end of the trading day.

Since both error trades and facilitations were treated by our Group in the same manner in terms of the reporting procedures in the past, our Group did not specifically distinguish facilitations from error trades in the error control reports during most of the Track Record Period. After the commencement of the preparation for the [REDACTED], the management of De Riva became aware of the importance to distinguish between error expenses and facilitation expenses. Therefore, since 13 December 2017, our Group has implemented the new error report filings to separately present the amount of error trades and facilitation expenses incurred by our Group on a daily basis. Our management will also review the total amount of error trades on a regular basis and will review if further trainings are needed for our licensed brokers to ensure that they could minimise their errors in the execution of trade orders and communication with customers.

Our Group provides discretionary bonus to all of our licensed brokers to encourage their performances. The discretionary bonus paid to our licensed brokers are decided by the management with reference to our net profit for the corresponding period and would directly be affected by our costs incurred during the corresponding period including the cost of error trades. Therefore, our licensed brokers, as much as our Directors have always been emphasising, are very cautious about any error trade in the daily operation as that would directly affect their personal interests. Our Directors consider and the Sponsor concurs that this is an effective self-monitoring mechanism to minimise the level of error trades caused by our licensed brokers individually and collectively as well as the overall frequency and amount of error trades of our Group.

In addition to the newly implemented error report filing system which enables our Directors to identify each error trade in our daily operations a disciplinary system has also been implemented to further deter the happening of error trades. Our Directors was at their discretion, issue verbal or written warnings to licensed brokers who cause material or repeated error trades. Our Directors reserve the right to immediately terminate his/her employment if they consider the error made to be unacceptable. Our Directors believe and the Sponsor concurs that with the newly adopted disciplinary system, our licensed brokers would be more careful when matching and executing trade orders.

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All error trades are subject to reporting and approval requirements in order to allow the management to monitor the level of error trades on a daily basis effectively. The reporting and approval matrix is shown as below:

Reporting and approval level	Amount (HK\$)	Reporting and approval(s) required
Level 1	Below 10,000	<ul style="list-style-type: none">• Desk manager
Level 2	10,001 – 50,000	<ul style="list-style-type: none">• Executive Director; and• Desk manager
Level 3	50,001 – 100,000	<ul style="list-style-type: none">• Chief executive officer of our Group;• Executive Director; and• Desk manager
Level 4	100,001 and above	<ul style="list-style-type: none">• Chairman of the Board;• Chief executive officer of our Group;• Executive Director; and• Desk manager

If the total amount of the error trade is below or equal to HK\$10,000, the error trade is subject to level 1 reporting and approval requirement as shown above. If the error trade amount is between HK\$10,001 and HK\$50,000, the error trade is subject to level 2 reporting and approval requirement, under which additional reporting to and approval from our executive Director is required. Level 3 reporting and approval requirement will be triggered for error trades with an amount between HK\$50,001 and HK\$100,000, under which additional reporting to and approval from our chief executive officer is required. Level 4 reporting and approval requirement will be triggered for error trades with an amount of HK\$100,001 and above, under which additional reporting to and approval from the Chairman of the Board is required. After the reporting is made in accordance with the above matrix, our Directors who have granted the approval in the corresponding level should endorse the error report as our internal record.

Our management will review the total amount of error trades on a regular basis and may provide further trainings from time to time to our licensed brokers in order to minimise the likelihood of the happening of error trades.

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Set out below are the details of our Group's error expenses and facilitation expenses since the implementation of the new error report filings:

	Error expenses <i>HK\$'000</i> (unaudited)	Facilitation expenses <i>HK\$'000</i> (unaudited)
December 2017 (<i>note</i>)	–	73
January 2018	7	150
February 2018	–	181
March 2018	159	131
April 2018	–	206
May 2018	75	96
June 2018 (up to the Latest Practicable Date)	–	24

Note: The new error report filings were put into practice on 13 December 2017.

Our error expenses amounted approximately HK\$159,000 in March 2018 was mainly attributable to an error trade amounting to approximately HK\$136,000. The error was caused by human input error of selling extra 217 Hang Seng Index Futures contracts. Once the error was identified, our licensed brokers closed the over sold position by buying equivalent quantity of Hang Seng Index Futures contracts in the market. Hence, a loss of approximately HK\$136,000 was resulted from the error trade.

Our error expenses amounted approximately HK\$75,000 in May 2018 was attributable to a human input error of quoting different index reference of Hang Seng China Enterprise Index to different clients and 60 contracts of Hang Seng China Enterprise Index Futures were traded with different index point. Hence, a loss of approximately HK\$75,000 was resulted from the error trade.

After the [REDACTED], for better corporate governance and the interests of our Group as well as our prospective shareholders, our Group will disclose the breakdown of the error expenses and facilitation expenses on a quarterly basis in our regular reports (including quarterly reports, interim reports and annual reports) to update our Shareholders.

The HK\$1.8 million error trade

During the Track Record Period, our Group identified one material error trade amounting to approximately HK\$1.8 million which adversely affected our profit in the Track Record Period. As confirmed by our Directors, the error trade incident was mainly due to miscommunication between our Group and our execution broker. Our Group was also responsible for the error trade as our licensed brokers failed to double check and verify if any open trade orders were executed by our execution broker overnight, and also failed to notify all executions to our customer and its clearing broker in a timely manner due to inadvertent oversight. The trade was an open trade order, being a trade order that is placed in the open market and remains in effect until it is canceled or executed when a

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counter party takes up the trade in the open market. Given the nature of this type of trades, no trade confirmations can be sent to the trading parties before the trade is executed. Therefore, there was not any trade confirmation sent to the customer before the execution of that trade.

Our Group received the error trade order in March 2016, which was an open trade order and contacted our execution broker, who placed the open trade order in the after-hours trading session of the same day. The open trade order was subsequently executed in the market overnight, and we and our customers were supposed to be notified by our licensed brokers about the execution and be allocated to our customer's account by our execution broker before the end of the trading session of the next trading day. However, the licensed broker responsible for such trade order carelessly rebooted the computer without confirming the number of executed and non-executed open trade orders, and failed to check whether there were any executed and non-executed open trade orders since last log-in as the interface showing the done deals were refreshed and all trade records were cleared before the last log-out. Furthermore, our then execution broker of such trade failed to notify us when the trade was executed. Therefore, it was impossible for the customer to take up the relevant trade position by the time we learnt about the execution of such trade order by our then execution broker and hence we had to take up the position ourselves and off load it gradually in the market which eventually led to the HK\$1.8 million material error trade.

Our Group was only notified by our execution broker two trading days after the open order had been executed that the executed trading positions remained unallocated to our customer. Our Group immediately contacted our customer to arrange for the settlement. However, as we did not notify our customer regarding the executed trade order in a timely manner, our customer refused to take up the trading positions. Our execution broker also denied the settlement obligation should be borne by them. As a result, our Group was eventually forced to take up the trading positions and settle all obligation in relation to the trading positions, which led to a material loss to our Group. To the best understanding of the Directors, neither our licensed broker nor the execution broker involved has been penalised by any regulatory bodies due to the incident up to the Latest Practicable Date.

In order to prevent the recurrence of similar incidents in the future, our Group has established and implemented the following procedures:

Procedures	Implemented in
i. stipulated the procedures of handling the trade checking process clearly in our operation manual and disseminated the operation manual to our licensed brokers and settlement department in order to raise their awareness and remind them of the importance of such procedures;	November 2017

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Procedures	Implemented in
ii. requested our licensed brokers to double check the status of the overnight trade orders in the morning of every trading day before trading hours;	October 2017
iii. requested our settlement department to make sure all information on the trade reports are correct by double checking with the trade orders and confirming with our clearing broker and/or execution broker; and	October 2017
iv. requested our licensed brokers to prepare a daily trading report for all trading allocation orders to our Group for our trade checking process.	October 2017
v. requested our licensed brokers to separately report error trades and facilitations on a daily basis with trade order details	December 2017

Since the implementation of the above procedures and up to the Latest Practicable Date, the amount of error trade incurred by De Riva during the period was approximately HK\$[241,000], which was caused by unintentional human errors, such as miscommunication between our licensed brokers and our customers on the trade order details or data input errors when executing trade orders.

Our Directors confirm that error trade at this level of materiality has only happened once during the Track Record Period and our daily business operations will be closely monitored by different levels of staff including our Licensed Representatives, our Responsible Officers, our settlement department and our executive Directors.

Breach of Futures Trading Rules — Block Trade

Pursuant to Rule 815A(2A) of the Rules, Regulations and Procedures of the Futures Exchange ("HKFE Trading Rules"), the minimum volume threshold ("**Minimum Volume Threshold**") for a block trade ("**Block Trade**"), which means any trade executed via the block trade facility ("**Block Trade Facility**") (i.e. the function of HKATS as specified by the HKEx to be used for Block Trade execution) of stock index futures and stock index options is 100 contracts.

Pursuant to Rule 815(2A)(a) and (c) of the HKFE Trading Rules, an HKFE Exchange Participant cannot aggregate separate orders or combine separate orders to generate a spread or strategy combination Block Trade unless:

- (a) at least one of the separate orders from either side meets the Minimum Volume Threshold; and

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- (b) in the case of a spread or strategy combination, at least one of the separate orders comprising an option leg satisfies the applicable Minimum Volume Threshold.

During the Track Record Period, our Group breached the HKFE Trading Rules once on 14 September 2016 due to a human error in the execution of Block Trades. One of our licensed brokers received a trading order from a customer and immediately performed the matching of the order but mistook the trade order size of the trading party of the other side. Due to the mistake, the Block Trade order was executed with a trading volume below the Minimum Volume Threshold which led to the breach of Rule 815A(2A) of the HKFE Trading Rules.

Due to the incident, our Group subsequently received a letter from the HKEX on 16 November 2016 (the "**Letter**"), confirming that our Group was in breach of Rule 815(2A) of the HKFE Trading Rules for its block trade activities on 14 September 2016 as mentioned above. Accordingly, our Responsible Officers and Directors have (i) reminded all of our licensed brokers the requirements for a valid Block Trade as defined under Rule 815 of the HKFE Trading Rules; and (ii) reviewed and strengthened the dealing control procedure which included effective supervisory controls in order to prevent any possible misunderstanding between our licensed brokers and our settlement department in handling customers' orders, as recommended by the HKEx in the Letter, by segregation of duties. After a licensed broker prepares the trade ticket, two other licensed brokers will independently verify the details on the trade ticket before proceeding to the settlement of the trade order by the settlement department.

Upon our Group's enquiry with the HKEx, our Group received a letter from the HKEx on 26 October 2017, which confirmed our Group was not the subject of any HKFE disciplinary proceedings as at the date of the reply letter and that the HKEX considered the matter closed.

SFC inspection

During the Track Record Period, SFC carried out an inspection in 2017 on De Riva and subsequently issued a letter to De Riva after the inspection. Comments were made in regard to De Riva's then internal control procedures. De Riva was required to take rectifying measures on the deficiencies as detailed below and respond to SFC in writing with the proposed remedial actions.

Set out below is the summary of the comments from the SFC and our rectification actions taken in respect of their comments:

- (i) *Providing services to professional investor*

De Riva provides brokerage services to Professional Investors. However, De Riva did not conduct proper assessment on our customers or maintain documentation of the same to demonstrate that those customers had met with the definition of Professional Investor;

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(ii) *Customer due diligence*

The SFC noted that De Riva had previously classified all institutional customers as Institutional Professional Investors and were eligible entities for the application of SDD. By doing so, De Riva could erroneously apply SDD on certain entities which are not eligible entities for the application of SDD as provided under Section 4(3) of Schedule 2 to the AMLO. In particular, the SFC noted that De Riva did not maintain audit trail to demonstrate the grounds to support the use of SDD on our customers; and

(iii) *Authorised trader list*

The SFC was given to understand that De Riva would receive trade orders via chatrooms established with our customers on certain terminals providing financial instant data and also via recorded phone lines. However, the SFC noted that De Riva had not taken reasonable measures to verify the identity of the person who would place orders on behalf of our customers.

To ensure our compliance in the future, De Riva established and implemented the following procedures:

Procedures	Implemented in
i. conduct reviews annually on each of our customers to ensure that they meet the necessary requirements under the Code of Conduct as Professional Investors;	November 2017
ii. adopted new control procedures for anti-money laundering and counter-terrorist financing checks for the application of SDD for Institutional Professional Investors with a checklist prepared in accordance with Paragraph 4.10.3 of the Anti-Money Laundering Guideline to check whether SDD can be applied to our customers and maintain a set of records for our easy reference;	August 2017
iii. requested our customers to provide an updated authorised trader list in accordance with Paragraph 1 of Part VII of the ICG for easy reference to our licensed brokers during daily business operations and maintained a database; and	August 2017
iv. updated our compliance and operation manuals and submitted the summary of our rectification measures mentioned above to the SFC.	November 2017

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De Riva received a letter from the SFC in November 2017 confirming that the SFC has no further comments in relation to their then enquiries on our business operations after the submission of our responses to them.

Key controls on our interdealer brokerage services

Client management

Our Group will conduct an annual review on each customer and has established a Professional Investor assessment form as a checklist to record the information of asset adequacy test, customer information and assets proof as an audit trail to ensure all of our customers meet the definition of Professional Investor.

Give-up

Our Group has established detailed procedures for give-up arrangement in our operation manual. The procedures are reviewed, approved and updated by the management in accordance with the updated regulatory environment and market conditions.

Employees dealing

According to the Code of Conduct, a licensed corporation should have a policy which has been communicated to its employees in writing on whether its employees are permitted to deal or trade for their own accounts in securities, futures contracts or leveraged foreign exchange contracts, subject to a series of requirements including internal reporting to and monitoring by the senior management of the licensed corporation.

During the Track Record Period, our Group has adopted the following internal control policy to ensure that our Group and our employees are in compliance with the Code of Conduct:

- (i) our written policy specified the conditions on which employees may deal for their own accounts;
- (ii) employees are required to identify all related accounts which includes accounts of their minor children and accounts in which the employees hold beneficial interests and report them to the management;
- (iii) duplicate trade confirmations and statements of the employees' accounts are required to be filed to the management;
- (iv) any transactions for employees' accounts and related accounts are required to be separately recorded and clearly identified in our internal records; and

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- (v) transactions of employees' accounts and related accounts were required to be reported to and actively monitored by our Responsible Officers and the management who do not have any beneficial or other interest in the transactions and who are required to maintain procedures to detect irregularities and ensure that the handling by the licensed or registered person of these transactions or orders are not prejudicial to the interests of our customers.

There was not any financial dispute or breach of the Code of Conduct in our Group or among our employees in relation to employees dealing matters during the Track Record Period.

Record keeping

A licensed corporation should keep, or cause to be kept, proper records on the design, development, deployment and operation of its electronic trading system as required in the Code of Conduct.

Our Directors review and update relevant procedures in our compliance manual to make sure it complies with the current regulatory requirements and request our staff to follow the compliance manual in order to make sure all records of our business operations are duly maintained including the performance of telephone record check. Our staff are also required to retain quotations and documents upon selection of new service providers such as clearing brokers and execution brokers.

Credit risk management

Due to the characteristics of our pure brokerage of derivatives business where our Group did not provide margin financing to any of our customers, we were not subject to any material credit risk nor had we suffered from any loss induced by credit risk during the Track Record Period.

Liquidity risk management

Pursuant to the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong), De Riva is required to maintain at all times the liquid capital which is not less than the minimum requirement. Our accounting department is responsible for the preparation of the financial returns and the computation of liquid capital in accordance with the requirements under the FRR. Monthly financial returns were submitted to our Responsible Officers for their review and approval before submission to the SFC no later than the 21st calendar day of each month as required by the SFC. Our accounting department also conducted liquid capital computation on a daily basis which was reviewed by our Responsible Officers to ensure that our Group was able to comply with the FRR requirement on an ongoing basis.

During the Track Record Period, De Riva did not have any non-compliance with the minimum liquid capital requirement as required by the SFC.

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Information technology policy

Our Group has established information technology policy which controls over our information technology infrastructure. Access controls are practiced so that access to our system are required to be authorised by our Directors. Password policies and standards are also in place to facilitate user authentication and access control. The computer system and information processing facilities of our Group are protected by firewalls and anti-virus softwares to prevent and detect any potential threats by computer viruses and other malicious softwares. Encryption is required when data is stored on portable devices.

To ensure the safety of our data assets, our Group has also established a backup system. Data in the file system is backed up at regular intervals. Our IT manager performs the backup and establishes an off-site archive simultaneously.

In order to maintain the safety and stability of our system and prevent system breakdown, control and safety measures have been implemented by our employees and monitored by our IT department and our Directors. Our Group also established business contingency plan and disaster recovery plan of our IT facilities and incorporated that in our internal operation manual to provide clear guideline for our staff to follow in order to continue their duties when disruption happens. Our IT manager would record and monitor the result of regular restoration test to ensure suitability of the business contingency plan and disaster recovery plan.

For hardware components of the trading system, we maintain the stock of hardware backup components to ensure any hardware failure can be recovered within a short period of time. Furthermore, our trading desks and settlement department are responsible for the close monitoring of the stability and performance of the trading system and, in case of any irregularities, the liaising with our IT department and/or trading system service providers for rectification immediately. Any software/hardware changes/upgrades in our system will be tested during off market period. Last but not the least, the log for our online trading system being accessed by our licensed brokers would be recorded. Both software and hardware firewalls are established for the online trading system to prevent and detect any potential threats from computer viruses and other malicious software.

Save as disclosed above in this section and based on public information available, our Directors and our independent compliance adviser, are not aware of any other comments from the SFC regarding our internal control policies and procedures in connection with our business operations up to the Latest Practicable Date. The Internal Control Adviser conducted a follow-up review in December 2017 and assessed the implementation of the internal control measures recommended by the Internal Control Adviser. Based on the follow-up review of the Internal Control Adviser, the deficiencies in relation to error trade have been rectified. The Sponsor has reviewed the internal control recommendations made by the Internal Control Adviser, the responses and remediation actions taken by our Group and has discussed with the Internal Control Adviser on its follow up review. Based on the independent work performed by Internal Control Adviser, our Group have implemented all major internal control measures recommended. No material deficiencies were identified during the follow-up review in relation to error trade. The Sponsor, after considering the above, concurs with the views of our Directors

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that the remediation actions taken by our Group are effective and adequate to address the deficiencies identified in the internal control review including the control on error trades.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

In order to detect and prevent money laundering and counter-terrorist financing activities timely, our Group has established internal control policy specifically on the anti-money laundering and counter-terrorist financing matters to ensure compliance with the regulatory requirements as regulated by the AMLO.

Customer due diligence

Our employees are required to identify and verify the identities of each of our customers with reference to data or information available from reliable and independent sources.

Pursuant to Section 4 of Schedule 2 to the AMLO, a licensed corporation may carry out simplified customer due diligence in relation to a customer if it has reasonable grounds to believe that the customer is:

- a. a financial institution;
- b. an institution that
 - (i) is incorporated or established in an equivalent jurisdiction;
 - (ii) carries on a business similar to that carried on by a financial institution;
 - (iii) has measures in place to ensure compliance with requirements similar to those imposed under Schedule 2 of the AMLO; and
 - (iv) is supervised for compliance with those requirements by an authority in that jurisdiction that performs functions similar to those of any of the relevant authorities;
- c. a corporation listed on any stock exchange;
- d. an investment vehicle where the person responsible for carrying out measures that are similar to the customer due diligence measures in relation to all the investors of the investment vehicle is
 - (i) a financial institution;

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- (ii) an institution that
 - (A) is incorporated or established in Hong Kong;
 - (B) has measures in place to ensure compliance with requirements similar to those imposed under Schedule 2 of the AMLO; and
 - (C) is supervised for compliance with those requirements; or
- (iii) an institution that
 - (A) is incorporated or established in an equivalent jurisdiction;
 - (B) has measures in place to ensure compliance with requirements similar to those imposed under Schedule 2 of the AMLO; and
 - (C) is supervised for compliance with those requirements;
- e. the Government or any public body in Hong Kong; or
- f. the government of an equivalent jurisdiction or a body in an equivalent jurisdiction that performs functions similar to those of a public body.

We have set up control procedures and checklist according to the Anti-Money Laundering Guideline to check on a new customer as to whether such customer is eligible for the application of simplified customer due diligence.

On-going monitoring

Our Directors review documents, data and information relating to our customers from time to time in order to monitor activities of our customers and identify unusual transactions. A transaction is considered to be unusual if the transaction involves suspicious and/or sophisticated manipulation, which constitutes a series of transactions which are not commercially sensible and/or the customer's trading instructions deviate significantly from its past trading pattern.

Our desk managers and Responsible Officers are responsible for the on-going monitoring.

Suspicious transaction or source of funding reporting

All employees in our Group are required to report any suspicious trades or events to our Directors at once as stated in our internal control manual. In case of a suspicious transaction or source of funding located, our compliance team will file reports to the Joint Financial Intelligence Unit as soon as practicable after preliminary investigation.

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Record keeping

Our Group records sufficient data and information to trace individual transactions and establish a financial profile of any suspicious account or customer. Our Directors confirm that all of the records would be kept for at least seven years.

During the Track Record Period, we were not aware of any customers or transactions which were suspicious in relation to money laundering and terrorist financing activities.

LEGAL PROCEEDINGS

Our Directors confirm that, as at the Latest Practicable Date, our Group was not subject to any actual litigation, arbitration proceedings or claim of material importance and was not aware of any litigation, arbitration proceedings or claim of material importance pending or threatening against any member of our Group or any of our Directors, that would have material adverse effect on our Group's financial condition.

NON-COMPLIANCE

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no material impact non-compliance or systemic non-compliance in respect of any applicable laws and regulations in Hong Kong.

REGULATIONS, LICENCES AND TRADING RIGHTS

The securities and futures market in Hong Kong is highly regulated. The principal regulatory bodies governing our business are the SFC and the HKEx Group. Our business and our staff carrying out regulated activities are subject to laws and regulations as well as rules, codes and guidelines issued by the SFC and the HKEx Group, respectively.

The table below sets out relevant licences and trading rights held by our Group as at the Latest Practicable Date:

Types of licences and trading rights	Effective period
Type 1 (dealing in securities) ^(Note)	Since 29 July 2010
Type 2 (dealing in futures contracts) ^(Note)	Since 29 July 2010
HKFE Exchange Participant (HKATS code: DRA)	Since 16 August 2010

Note: Licensing condition: The licensee shall only provide services to professional investors. The term "professional investor" is as defined in the Securities and Futures Ordinance and its subsidiary legislation.

The above licences and trading rights have no expiry date and will remain valid unless they are suspended or revoked by the SFC or the Stock Exchange, as applicable.

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Our Directors confirm that our Group has obtained all the necessary licences, permits, certificates and participations which are required to carry on its activities as set out in this document as at the Latest Practicable Date and that all staff members currently performing regulated activities for our Group are properly registered with the SFC as Responsible Officers or Licensed Representatives accredited to De Riva.

Further, our Directors confirm that:

- (i) our Group has not experienced any difficulty in renewing any of our licences;
- (ii) none of our licences has been revoked; and
- (iii) we have not received any objection from the SFC or other competent authorities in respect of renewal of any licences or participations.

OUR EMPLOYEES

Responsible Officers and Licensed Representatives

De Riva is licensed to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO. Set out below is a summary of the licences currently held by us and the number of licensed persons in each regulated activity as at the Latest Practicable Date.

Regulated activities	Number of Responsible Officers^(Note)	Number of Licensed Representatives^(Note)
Type 1	3	11
Type 2	3	12

Note: Respective persons may hold multiple licences for different regulated activities.

Under the SFO, at least one of the Responsible Officers must be an "executive director" (defined in the SFO to mean a director who actively participates in, or is responsible for directly supervising, the business of a regulated activities for which the corporation is licensed). In this regard, Mr. Lee was the executive director approved by the SFC as a Responsible Officer in compliance with the SFO.

According to the public register of licensed persons and registered institutions of the SFC, none of our Responsible Officers or Licensed Representatives have been subject to any public disciplinary actions.

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Number of employees by function

Set out below is the number of employees by function as at 31 March 2016, 31 March 2017, 31 March 2018 and the Latest Practicable Date:

	As at 31 March			As at the Latest Practicable Date
	2016	2017	2018	
Directors and senior management	5	5	6	6
Derivatives dealing and brokerage	13	11	12	12
Settlement department	3	3	2	2
Finance, IT, compliance, human resources and administration	3	4	5	5
Total	24	23	25	25

Relationship with staff

Our Directors consider that our Group has maintained good relationships with our employees. The Directors confirm that our Group has complied with all applicable labour laws and regulations in Hong Kong.

Our Directors confirm that our Group has not experienced any significant problems with our employees or disruption to our operations due to labour disputes nor has our Group experienced any major difficulties in the retention of experienced staff or skilled personnel during the Track Record Period.

Training and recruitment policies

Our Directors believe that our staff is our most important asset. It is our policy to encourage the development and training of our staff in order to maximise their potential. Our Directors firmly believe that motivating our staff will help align their interests with ours which ultimately benefits our Group and enables both our staff and our Group to develop concurrently.

Our Group provides training to staff to equip them with the relevant skills and knowledge necessary for their respective job functions. Accordingly, the nature of staff training that our Group provides varies with the function that may be performed by the relevant staff.

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Our staff training can be classified into internal training and external training. Internal training of our staff involves on-the-job training (which may be provided during job induction, rotation and over their employment) and internal training sessions.

In terms of external training, our Group encourages our staff to attend external courses and seminars. In particular, our Group strongly encourages our staff to attend training sessions to keep them abreast of latest development of the relevant laws, rules and regulations.

De Riva is a licensed corporation under the SFO and the majority of our employees are licensed as either Responsible Officers or Licensed Representatives. As such, the licensed staff of De Riva have to comply with the continuous professional training requirements. All Responsible Officers and Licensed Representatives are required to undertake sufficient number of hours of continuous professional training in order to maintain their SFC licenses to carry on regulated activities.

From time to time, our Group provides updates on changes or development in the financial industry including the revisions on rules and regulations to keep our relevant staff updated.

Recruitment policy

Our recruitment policy is designed to assist our Group to employ staff through a transparent and fair process. Suitable candidates are sourced through public advertisement, network referrals as well as internal promotions, as appropriate. Our Group will assess each applicant through reviewing their resume and their interview process, based on factors including, among others, academic, professional and technical qualifications, relevant work experience, job knowledge, technical know-how and management experience. Suitable candidates will be offered employment based on the merits and assessment of desk managers, and following approval by our human resources department and senior management.

Staff remuneration and benefits

Our Group aims to offer competitive remuneration to our staff, and consideration is given to market pay levels, pay trends as well as supply and demand in the labour market. The remuneration package of our staff includes a basic salary, medical allowances and discretionary bonuses. Our Group makes contributions to all mandatory provident funds for our staff under the applicable laws in Hong Kong.

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OUR LEASED PROPERTY

As at the Latest Practicable Date, our Group did not own any real property. During the Track Record Period, our total rental and related expenses incurred were approximately HK\$3.6 million.

Our headquarters and principal place of business is leased from an Independent Third Party pursuant to a tenancy agreement whereby our Group is permitted to have exclusive possession to occupy and use the office premises. Details of the premises are summarised below:

Location	Tenant	Description and tenure	Usage	Term
Units 501-2, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong	De Riva	The property comprises two adjoining office units and a total lettable area of approximately 2,359 square feet. This property is leased to De Riva pursuant to a lease.	Office	two years from 2 December 2016 to 1 December 2018

As agreed with the lessor, our Group surrendered the above office premises in May 2018.

In January 2018, De Riva entered into a tenancy agreement with an Independent Third Party for a larger office premises. In April 2018, the head office of the Group moved to such office premises. Details of the premises are summarised below:

Location	Tenant	Description and tenure	Usage	Term
Units 2601-3, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong	De Riva	The property comprises three adjoining office units and a total lettable area of approximately 3,754 square feet. This property is leased to De Riva pursuant to a lease	Office	three years from 1 March 2018 to 28 February 2021

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OUR INTELLECTUAL PROPERTY

Trade marks

As at the Latest Practicable Date, our Group had applied for the registration of two trademarks in Hong Kong. For further details, please refer to the section headed "B. Further information about our business — 2. Intellectual property rights — (a) Trademarks" in Appendix IV to this document.

Domain names

As at the Latest Practicable Date, our Group had registered one domain name, being www.derivaasia.com. Ownership of such domain name is considered by our Directors as material to the business of our Group. Details are set out in the section headed "B. Further information about our business — 2. Intellectual property rights — (b) Domain name" in Appendix IV to this document.

Our Directors confirm that as at the Latest Practicable Date, our Group had not infringed, and had not been alleged to have infringed, any intellectual property rights owned by third parties and our Group had not been subject to any material intellectual property claims against us or been involved in any material intellectual property dispute.

OUR INSURANCE COVERAGE

During the Track Record Period, we maintained medical insurance for employees and insurance as required under the Securities and Futures (Insurance) Rules. As major aspects of our operations have been covered by insurance, we believe our Group has taken out sufficient insurance coverage over our assets and employees. During the Track Record Period, there were no material insurance claims.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our Directors believe that the nature of our business does not involve substantial risks involving the environmental, health and safety matters. During the Track Record Period, our Group has complied in all material respects with all environmental, health and work safety laws and regulations applicable to us.