Unless otherwise indicated, the information presented in this section is derived from the Industry Report, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources and trade union surveys. References to the writer of the Industry Report should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are appropriate sources for such information and statistics. Our Directors have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information set out in this section has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]** *or the* **[REDACTED]** *involved in the* **[REDACTED]** *or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.*

SOURCE OF INFORMATION

Our Group has commissioned CIC, an independent industry consultant, to conduct an analysis of, and to report on the derivatives brokerage market in Hong Kong from 2012. The report our Group commissioned, or the CIC Report, has been prepared by CIC independent of our influence. Our Group paid CIC a fee of HK$560,000 for the preparation of the report, which our Group considers in line with market rates.

CIC's independent research was undertaken through both primary and secondary research approaches. Primary research involved interviewing industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, such as the SFC, the HKEx, Singapore Exchange, Hong Kong Census and Statistics Department, etc.

The market projections were obtained from historical data analysis as well as underlying market drivers. In preparing the CIC Report, CIC has adopted the following key assumptions: (i) Hong Kong and Singapore's economy development are likely to maintain a steady growth trend throughout the next decade; (ii) relevant key industry drivers are likely to continue driving growth in the Hong Kong and Singapore derivatives markets during the forecast period, including volatility of the global market and underlying assets of derivatives products, limitations and turbulences in the capital market of the mainland China, development in Hong Kong's fund industry, improvement in market efficiency, etc.; and, (iii) there is no extreme force majeure or set of industry regulations in which the market may be affected either dramatically or fundamentally.

Except as otherwise noted, all the data and forecast in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

HONG KONG DERIVATIVES MARKET OVERVIEW

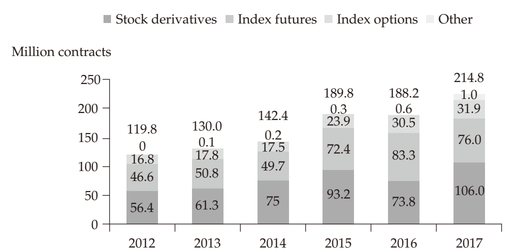
Exchange traded derivatives market in Hong Kong

Hong Kong has become one of the most active derivatives markets in Asia. The derivative contracts traded in Hong Kong include equity futures and options, interest rate futures, fixed income futures, and commodity futures depending on the underlying assets. Equity derivatives comprise the majority of the derivatives market in terms of trading volume in Hong Kong.

The total volume of exchange traded derivatives increased from 119.8 million contracts to 214.8 million contracts at a CAGR of 12.4% from 2012 to 2017. Since the inauguration of the Shanghai-Hong Kong Stock Connect, it has become more convenient for investors from mainland China to invest in equity markets in Hong Kong. A big spike in Asian financial markets in 2015 drove up the trading volume of the Hong Kong derivatives market. Derivatives products became popular in bull markets for the purposes of leveraging, hedging or arbitrage.

According to the SFO, investors can be categorised into professional investors (PIs) and non-professional investors (Non-PIs) based on their portfolio size, total assets, audited financial statement, etc. Professional investors take the majority of the trading volume of exchange traded derivative contracts. In 2017, it is estimated that about 57% of those derivatives contracts were traded by PIs.

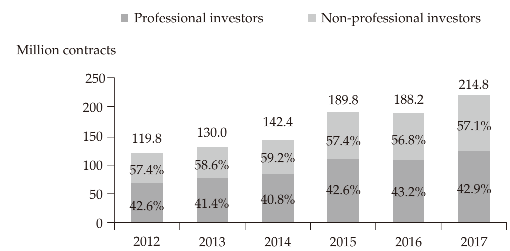
Trading volume of exchange traded derivative contracts, by product type, Hong Kong, 2012-2017



Note: Other underlying assets include currencies, commodities, interest rate, and fixed income.

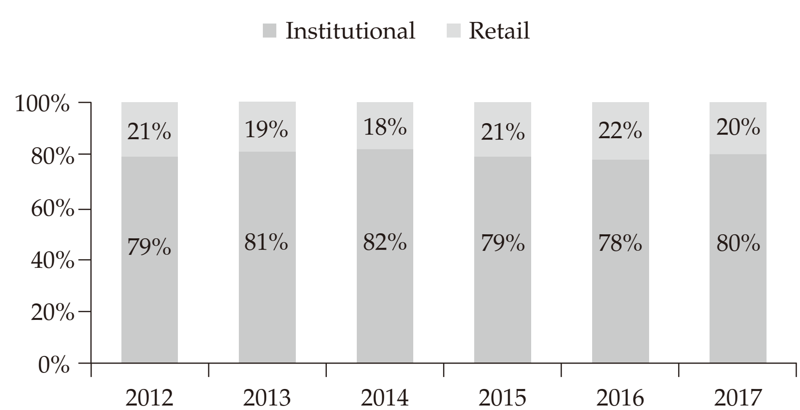
Source: HKEx, CIC

Composition of investors of exchange traded derivative contracts, by investor type, Hong Kong, 2012-2017



Institutional investors dominate exchange traded derivatives in terms of trading volume by contributing nearly 80% towards the total traded contracts. Meanwhile, Exchange Participants' (EP) principal trading (comprising trading as market makers and EP proprietary trading) dominated the turnover in exchange traded derivatives market, accounting for around 50% of total contracts. Due to a strong sensitivity to market changes and lower trading costs, the share of institutional investor traded contracts will sustain at a high level in the future.

Composition of investors of exchange traded derivative contracts, by investor type, Hong Kong, 2012-2017



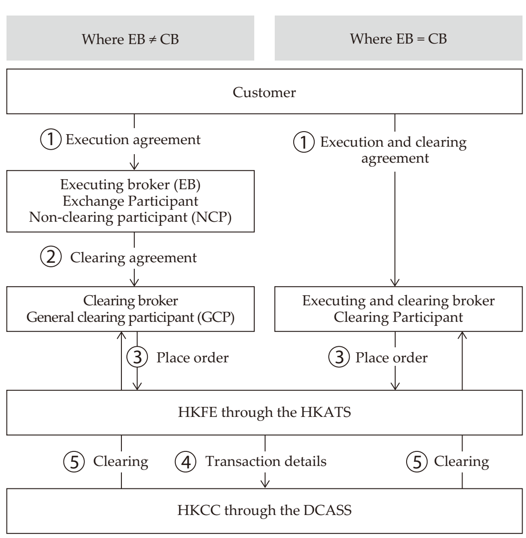
Source: HKEx, CIC

Most of the Hong Kong listed derivative contracts are executed and cleared on the HKFE (except single stock options) and the process can be broken down into the following five steps: (1) a customer signs an agreement with a broker on the terms regarding the execution of the trade; (2) if an executing broker (EB) is not a clearing participant, it will sign a separate clearing agreement with a clearing broker (CB); (3) a broker places the derivatives trade order through the HKATS and orders are matched based on price and time; (4) the executed order is transmitted to the HKCC for registration and clearing; (5) the HKCC clears the trade with brokers through the DCASS.

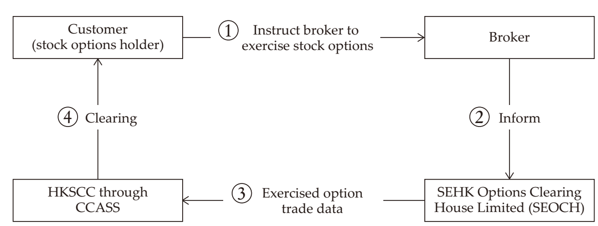
Stock options in Hong Kong are of American style, and they can be exercised at any time on or before expiry but only through physical settlement instead of cash settlement. Exercising and settling stock options can be broken down into the following four steps: (1) a customer needs to instruct a broker to exercise his/her stock options; (2) the broker informs SEOCH of the exercise decision, and SEOCH randomly assigns a short open position against the exercised option; (3) SEOCH sends the exercised option trade data to HKSCC for the settlement of underlying securities; and (4) the CCASS is used for clearing the stock transactions resulting from the exercise of stock options.

Stock option trading and settlement in Hong Kong can be broken down into the following four steps: (1) a customer needs to instruct a broker to trade stock options he/she holds; (2) the broker places orders on the SEHK and it will act to match orders; (3) the matched transaction details will be transmitted to SEOCH, which in essence assumes the role of a central counterparty to both sides of the trade; and (4) SEOCH acts to clear the trade of stock options.

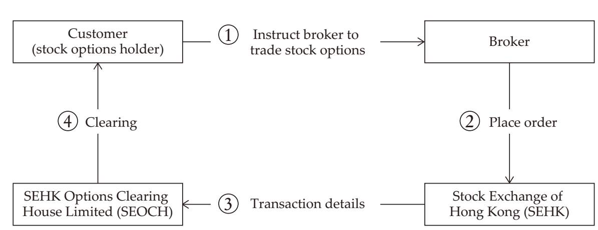
Settle and clear derivatives on HKFE



Exercise and settle stock options in Hong Kong



Trade and settle stock options in Hong Kong



Source: CIC

OTC derivatives market in Hong Kong

OTC derivative contracts traditionally refer to those bilateral derivative contracts traded directly between two parties, without the supervision of an exchange. However, driven by the supervision from regional financial regulators, it has become a trend for OTC derivatives to be centrally cleared instead of bilaterally cleared, and get supervised by local financial market regulators. The Legislative Council enacted the Securities and Futures (Amendment) Ordinance 2014 (Amendment Ordinance) on 26 March 2014 providing a regulatory framework for the OTC derivatives market in Hong Kong. The Amendment Ordinance is being implemented in stages involving mandatory reporting and clearing of OTC transactions in certain derivative products. Therefore, OTC derivatives market in Hong Kong will be more standardized in the future.

SINGAPORE EXCHANGE TRADED DERIVATIVES MARKET OVERVIEW

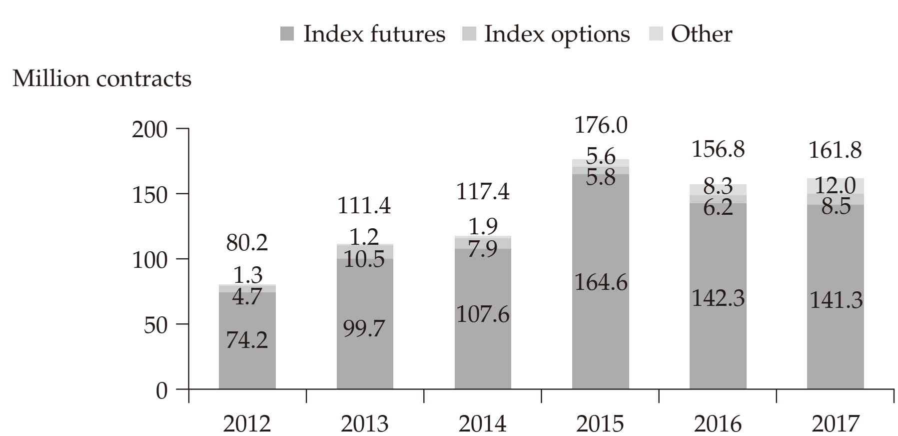
Exchange traded derivatives markets in Singapore

As a main channel connecting Asia financial markets with international financial markets, Singapore Exchange (SGX) is the world's largest offshore Asia equity futures market, providing its customers with opportunities to get exposure to the equities in China, India and Japan. The SGX provides full chain services including trading, settlement, and clearing.

Index futures dominated the derivatives market in Singapore, contributing approximately 90% towards the total trading volume. Between 2012 and 2017, the total amount of index futures traded increased from 74.2 million contracts to 141.3 million contracts at a CAGR of 13.7%, while the growth of the trading volume of index options fluctuated significantly, starting from 4.7 million contracts in 2012 and ending with 8.5 million contracts in 2017. Similar to the market performance in Hong Kong, the total trading volume of exchange traded derivatives in Singapore soared from 117.4 million contracts in 2014 to 176.0 million contracts in 2015.

In 2017, index futures were the most actively traded instrument, accounting for 87% of the total trading volume. The trading volume of other instruments, such as interest rate and currency, was low. Of all equity index products, there is only one index derivatives product linked to the local financial market, while the underlying assets of other index derivatives are of foreign equities. In 2016, China A50 index futures were the most traded product, representing 41.7% of the total trading volume, followed by Nikkei 225 index and Nifty 50 index, representing 13.4% and 13.1%, respectively.

Trading volume of exchange traded derivative contracts, by product type, Singapore, 2012-2017

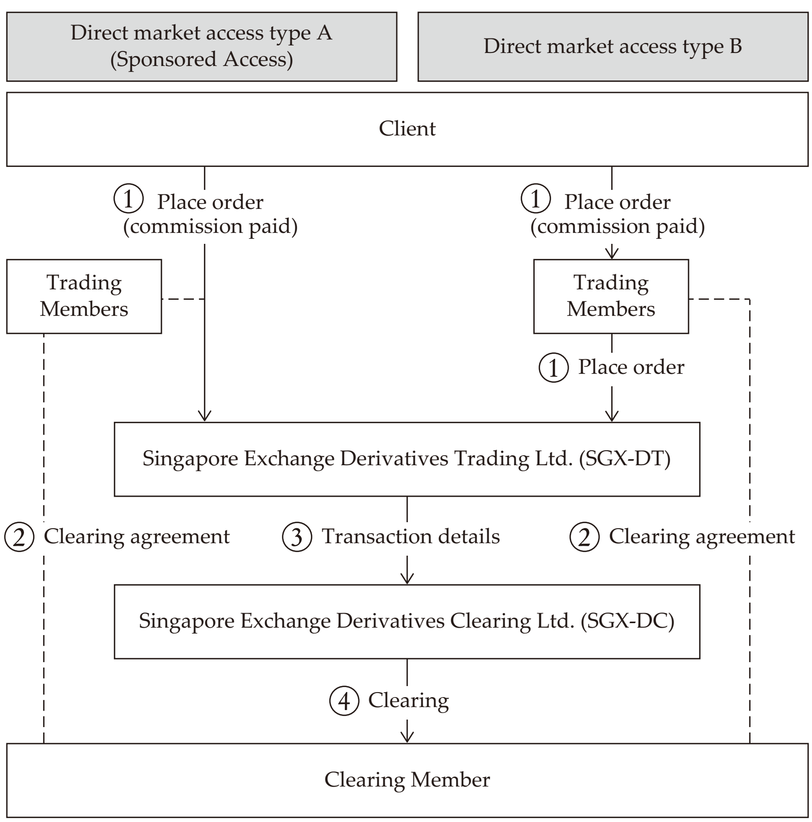


Note: Other underlying assets include currencies, commodities, and interest rate.

Source: SGX

Derivatives trading and clearing on the Singapore Exchange Derivatives Trading Ltd. (SGX-DT) can be broken down into the following four steps: Firstly, a customer signs an agreement with a broker on the terms regarding the execution of the trade. Trading Members (TMs) can be either General Trading Members or Bank Trading Members. Customers are able to gain access to the SGX-DT through two types of direct market access. Under type A, also called Sponsored Access, a TM permits its customers to use its own member ID to place trade orders with the SGX-DT without the use of the TM's infrastructure. Under type B, customers will submit trade orders electronically to a TM's system, and the TM will place the orders with the SGX-DT for execution. Secondly, the TM signs a clearing agreement with a Clearing Member (CM), who is granted clearing privileges by the Clearing House as contemplated in the Clearing Rules. Thirdly, the SGX-DT forwards transaction details to the Singapore Exchange Derivatives Clearing Ltd. (SGX-DC) for settlements. Fourthly, the SGX-DC clears transactions and sends credit/debit instructions to SGX-DC's settlement banks to instruct them to credit/debit the CM's account for mark-to-market profits/losses and margin calls. CMs are required to report their open positions using Position Change Sheets ("PCS") for each contract to the SGX-DC.

Settle and clear derivatives on SGX-DT



Source: CIC

OTC derivatives market in Singapore

Similar to OTC derivatives in Hong Kong, the Monetary Authority of Singapore (MAS) has undertaken a series of approaches to regulate OTC derivatives activities in Singapore, such as mandatory central clearing and reporting OTC derivatives, introducing a new regulatory regime for trade repositories, etc.

DERIVATIVES BROKERAGE MARKET OVERVIEW

Overview

There are two segments in derivatives brokerage markets, the customer market and the interdealer market. Customers are end-users such as hedge funds, corporations, institutional investors and retail investors. They normally execute contracts through dealers, most of whom are large financial institutions that have capital and resources to arrange complex, large-value trades. Interdealer brokers play a role in facilitating pricing discovery, and trade execution between dealers. Interdealer brokers do not trade for their own accounts or participate in market making activities. Sometimes, customers such as hedge funds would also approach interdealer brokers to trade contracts more efficiently.

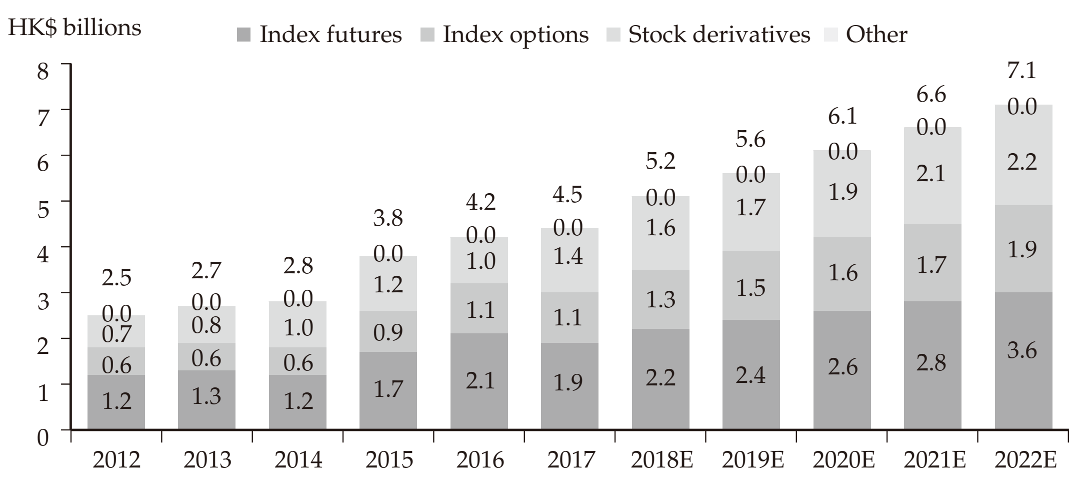
Market size of Hong Kong derivatives broking industry

Between 2012 and 2017, the market size of the derivatives broking industry in terms of brokerage fees income in Hong Kong increased from HK$2.5 billion to HK$4.5 billion at a CAGR of 12.1%.

Brokerage fees are derived from the trading volume of derivatives. A significant market expansion from 2014 to 2015 was mainly due to an increase in the total trading volume during the same period. In addition, even though the total trading volume of exchange traded derivatives slightly decreased in 2016 due to a recession in the stock options sector, the continued growth of the broking industry was not disturbed as a result of a flourishing equity index derivatives market. As a result, market sizes of index futures and options sectors grew at CAGRs of 10.3% and 13.5%, respectively, from 2012 to 2017.

Due to the volatility of underlying assets, limitations and turbulences in the capital market of the mainland China, development in Hong Kong's fund industry, and improvement in market efficiency, the total market size of derivatives brokerage industry is forecasted to reach HK$7.1 billion in 2022 at a CAGR of 9.8% from 2017.

Total amount of brokerage fees income from derivatives broking activities, Hong Kong, 2012-2022E



Note:

1. Other underlying assets include currencies, commodities, interest rate, and fixed income.

2. The total amount of brokerage fee income from derivatives broking activities might be overestimated since the commission fee of part of EP principal trades are estimated in accordance with industry level which might be lower in practice.

Source: CIC

Drivers of the derivatives brokerage market in Hong Kong

1. *Volatility of underlying assets*

Rising volatility in the global capital market invites active trading in the derivatives market, since futures and options are commonly used financial tools to hedge against risks. Incidents related to monetary policies, exchange rates, and geopolitical relationships, e.g., monetary policies by the U.S. government, remaining problems after the Brexit vote, devaluation of the Chinese yuan, and potential conflicts induced by the Korean THAAD system, are common factors which could induce fluctuations in global financial markets. Increased volatility in underlying assets will stimulate the demand for risk hedging and speculation, and will drive up the trading volume of the corresponding derivatives.

2. *Limitations and turbulences in the capital market of the mainland China*

In the capital market of the mainland China, there are many limitations and turbulences, namely restrictions on daily trading volume of equity index derivative contracts, low-liquidity of real-estate investments, volatile security markets, and deregulated private financing. An increasing amount of mainland investors seek alternative investment opportunities in off-shore capital markets to spread risks by developing diversified portfolios. As further integrations between the economies of mainland China and Hong Kong and bilateral openings of capital markets materialize, Hong Kong is becoming increasingly popular for many mainland investors.

3. *Development in Hong Kong's fund management industry*

As an international asset and wealth management center, Hong Kong's combined assets under management in the fund management business increased from HK$12,587 billion in 2012 to HK$24,270 billion in 2017, registering CAGR of 14.0%. The increase was the result of positive market performance and net capital inflows. Investment managers in Hong Kong diversify their portfolios by increasing their allocation into alternatives, derivatives and other investment instruments. Out of assets managed in Hong Kong in 2017, a total of HK$234 billion was invested in alternatives and derivatives, representing a decrease of 41.1% when compared to last year.

4. *Improvement in market efficiency*

Derivatives are based on underlying assets, and these assets are easily mispriced in inefficient markets, under which case valuation and trading of derivatives will be heavily impeded. Efficient market means higher-level capitalisation, a large number of participants, complete regulatory oversight with high transparency, etc. All of these factors could minimize information asymmetry, promote market efficiency, reduce the gap between the intrinsic value and market value of derivatives products and attract more investors. Thus, the more sophisticated a market is, the more capitalised the local environment is, the more efficient the financial market would be and the more active the derivative trading would be. Places like Hong Kong, which have been well functioning under sophisticated capital markets for multiple years, are well suited for the development of derivatives markets.

Market size of the Singapore derivatives brokerage market

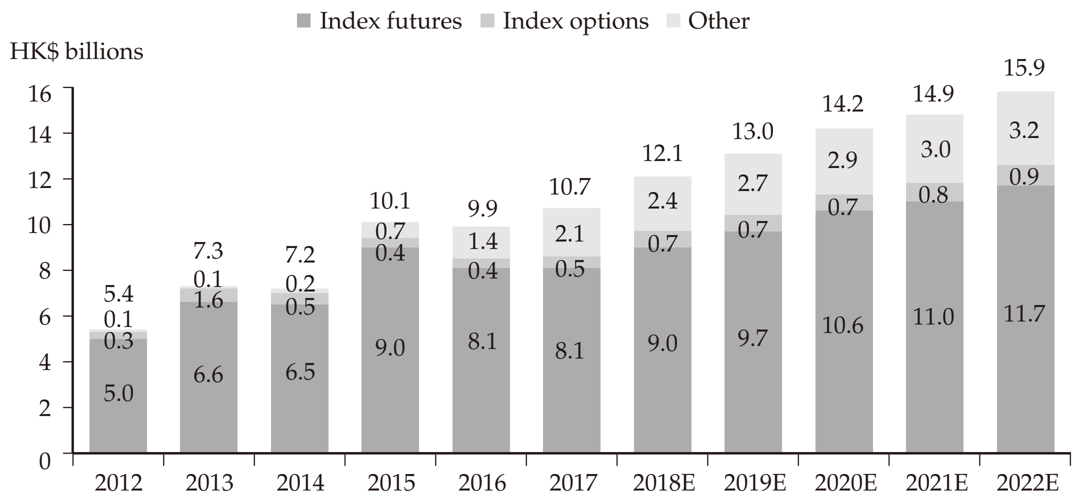
As the SGX derivatives market contains multiple index futures and options of underlying foreign assets such as FTSE China A50, Nikkei 225, Nifty series, etc., the SGX derivatives market is considered as one of the most international financial markets in Asia. Brokers are able to charge higher in commission fees than those of the Hong Kong market. The market size of the derivatives broking industry in terms of brokerage fees income in Singapore increased from HK$5.4 billion to HK$10.7 billion at a CAGR of 14.8% from 2012 to 2017.

In the regional bull market in Asia in 2015, Singapore was able to attract more attention from investors due to its exposure to various foreign assets. For example, FTSE

China A50, which has become one of the key indexes for foreign investors to speculate on the Chinese stock market, was the largest contributor to the significant growth of the derivatives brokerage market in Singapore.

Owing to the diversity of products in Singapore, it is expected that the market size of the Singapore's derivatives broking industry will reach HK$15.9 billion in 2022, registering CAGR of 8.1% in the next five years.

Total amounts of brokerage fees income from derivatives brokerage activities, Singapore, 2012-2022E



Note:

1. Other underlying assets of exchange traded derivatives products include foreign exchange, commodities, and interest rate.

2. The total amount of brokerage fee income from derivatives activities might be overestimated since the commission fee of part of EP principal trades are estimated in accordance with industry level which might be lower in practice.

Source: CIC

Drivers of the derivatives brokerage market in Singapore

1. *Various derivatives listed on SGX*

By now, various derivatives tracking indexes, including China A50, Nikkei, Nifty, MSCI Taiwan, MSCI Thailand, etc., have been listed on SGX, enabling investors to achieve exposure to the financial assets in Southeast Asia, especially in those countries implementing limitations on foreign investments. In November 2016, SGX announced its launching of net total return and price return futures on the MSCI Emerging Markets (EM) and MSCI EM Asia indexes, which makes it the first and only exchange in Asia to offer investor exposure to these fast-growing market segments. Therefore, Singapore derivatives market is estimated to attract more and more investors by its extensive and increasing products range.

2. *Developed economy with sophisticated institutions*

Singapore has a highly developed and successful free-market economy. It boasts a remarkably open and corruption-free environment, stable prices, and a per capita GDP higher than that of most developed countries. The stable economy provides the base for the prosperity of its financial market, complemented by its comprehensive and sophisticated regulations. Its highly transparent financial market is attractive to global investors.

3. *Strategically important location*

Singapore is located on the southern tip of the Malay Peninsula in Southeast Asia, between the Indian Ocean and the South China Sea, and it is situated along important shipping routes in Southeast Asia. With its 190 kilometers of coastline and natural deep-water ports, Singapore's trading and commerce are highly developed. Under such condition Singapore is especially important for commodity trading, including crude oil and fuel oil. It has become the trading center of oil in southeast Asia. The prosperity of commodity trading stimulates the transaction volume of related commodity futures.

4. *Cooperation with Chicago Mercantile Exchange (CME)*

SGX and CME have a strategic partnership realized through a Mutual Offset System (MOS). The agreement enables futures positions opened on one participating exchange to be liquidated on the other, creating a single, 24-hour marketplace between both exchanges. Such liquidity and convenience provide more fuel for the development of its derivatives market.

Future outlook of the derivatives brokerage industry in Hong Kong

1. *Market consolidation*

The global derivatives broking industry has seen more frequent merger and acquisition activities in recent years. As many of the global brokers have set up subsidiaries in Hong Kong, transactions happening on the global scale will affect Hong Kong regionally. For example, Tullet Prebon, whose Hong Kong office is a non-clearing participant (NCP), acquired the voice-brokerage business of ICAP Brokers, another company with a Hong Kong NCP branch, in December 2016. BGC Partners, whose Hong Kong branch is not a participant of the HKFE, acquired Sunrise Brokers, a NCP, in the same month. Market consolidation results from strategic considerations. As market participants tend to move towards more standardized products that are exchange-traded or electronically traded, it is crucial for brokers to have a large scale in order to survive. Meanwhile, the number of HKFE Exchange Participants increased from 185 in 2012 to 191 in mid-2018. It is estimated that merger and acquisition activities will continue in the derivatives brokerage industry in the near future.

2. *Electronification*

Electronification has been a big theme of change in the derivatives broking industry with the prevalence of traditional voice brokerage and the number of voice traders declining. Electronification improves efficiency both in quoting and in execution, and it also serves as a secure means for documentation. As electronification continues to unfold, more platforms are likely to emerge, equipped with the ability to host an increasing number of asset classes.

3. *Tightening regulations*

Since the 2008 global financial crisis, global regulators have been administering more stringent rules and laws in the financial services sector. Derivative securities, as a type of more sophisticated financial products, have come under intense scrutiny by watchdogs, both globally and regionally. Policies and standards are introduced to ensure a well-functioning and healthy derivatives market, not only on the direct handling of derivative securities but also on the parties involved. For example, there has been a push worldwide for further regulation on OTC derivatives, including a centrally cleared regime, collateral rules, etc. Locally in Hong Kong, the SFC has proposed a new licensing regime to introduce type 11 and type 12 licenses aimed at supervising OTC derivatives activities, which is largely an unregulated area in the Hong Kong financial market. It is anticipated that more regulations will be announced for the derivatives broking industry in the near future.

Competitive landscape for the derivatives broking industry in Hong Kong

In order to participate in the Hong Kong derivatives broking industry, companies must obtain a type 2 license, a futures exchange trading right that enables licensees to trade and provide brokerage services on index and commodity futures, and buy and sell futures contracts for customers.

As of June 2018, there were a total of 9 GCPs, 160 CPs, and 22 NCPs on the HKFE with type 2 licenses issued by the SFC, of which 15 of them were providing brokerage services to external parties on derivative contracts. The rest of the corporations either were only engaged in proprietary trading or had ceased providing brokerage services.

A person needs to become a licensed representative if he/she intends to carry out regulated activities under the SFO for a licensed corporation. A licensed representative can apply to become a responsible officer, and thus become entitled to supervise regulated activities for a licensed corporation. The total number of licensed representatives and responsible officers of a licensed corporation provides a good gauge of the potential capacity to deal in derivatives of that entity.

The NCP derivatives brokerage market in Hong Kong is competitive. The top five players all had revenue over HK$100 million, while our Group, generating over HK$75 million revenue in 2017, were among top 10.

Rankings of NCPs in terms of total commission revenue, 2017

Ranking		**Commission revenue 2017** *(HK$ millions)*
1	Competitor A	~175
2	Competitor B	~170
3	Competitor C	~140
4	Competitor D	~110
5	Competitor E	~105
6	Our Group	~75
7	Competitor F	~75
8	Competitor G	~65

Rankings of exchange participants with type 2 license in terms of total commission revenue, 2017

Ranking		**Commission revenue 2017** *(HK$ millions)*
1	Competitor H	350~370
2	Competitor I	320~350
3	Competitor J	230~260
4	Competitor K	220~250
5	Competitor L	220~240
6	Competitor M	200~220
7	Competitor N	180~200
8	Competitor A	~175
9	Competitor B	~170
10	Competitor O	160~170

Source: SFC, CIC

Barriers to entry for the derivatives broking industry in Hong Kong

1. *Regulatory requirements*

Dealing in futures contracts is a regulated activity under the SFO. According to Section 116, companies are required to obtain a type 2 license from the SFC so as to carry out regulated activities. Meanwhile, companies interested in trading on and through the HKFE must attain trading rights and participantship of the exchange. New entrants who are not able to secure licenses, trading rights, and participantship are prohibited from dealing in futures contracts.

2. *Capital requirements*

Companies holding a type 2 license and seeking to deal in futures contracts (excluding those which are approved introducing agents, a trader or a future non-clearing trader) are further regulated by the SFO to have a minimum of HK$5 million in paid-up capital according to Schedule 1 Financial Resources Requirements (FRR) of Cap. 571N Securities and Futures (Financial Resources) Rules. They are also required to abide by a Required Liquid Capital rule, where companies must maintain a minimum of HK$500,000 or HK$3 million in liquid capital, respectively depending on whether the company in question is an approved introducing agent, futures non-clearing dealer or trader, or otherwise. Under Cap. 571AI Securities and Futures (Insurance) Rules, type 2 licensed HKFE participants must maintain a single policy of insurance with an insured amount of no less than HK$15 million.

3. *Expertise knowledge*

Derivatives are more sophisticated financial products and require more expertise to handle. Human resources are the most important asset of a brokerage firm and experienced professionals are scarce in the industry. Existing market players tend to make efforts to retain their experienced employees. As such, new entrants may struggle to find suitable candidates to join them.

4. *IT infrastructure*

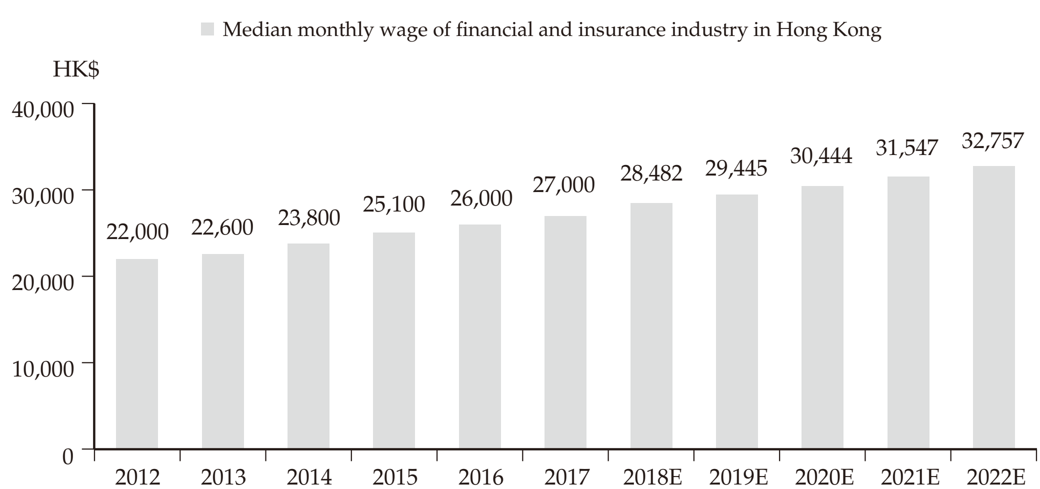
The derivatives broking industry relies heavily on IT technology to run its business. It is of paramount importance for brokers to have a competent IT system in place that ensures connections to various trading systems, including the HKATS, DCASS, OTC Clear (OCASS), etc., and cybersecurity during the course of their business. Such an IT infrastructure requires a significant amount of capital, human labor, and time to set up. New entrants often lack such infrastructure and are not able to enter the industry successfully.

COST ANALYSIS

Human resource cost of the Hong Kong derivatives brokerage market

Between 2012 and 2017, the median monthly wage of financial and insurance in Hong Kong increased from HK$22,000 to HK$27,000, registering CAGR of 4.2%. The median monthly wage is forecasted to reach HK$32,757 by 2022.

Median monthly wage of financial and insurance industry, Hong Kong, 2012-2022E



Source: Hong Kong Census and Statistics Department, CIC
Due to the limited public information available, the median monthly wage here refers to that of the entire financial and insurance industry in Hong Kong.