

REGULATORY OVERVIEW

A. RULES AND REGULATIONS WITH REGARDS TO HONG KONG

This section summarises the principal laws and regulations of Hong Kong which are relevant to our business. As this is a summary, it does not contain and should not be construed as a detailed analysis of the Hong Kong laws which are relevant to our business.

Securities and Futures Commission

Regulation of securities and futures market

The SFC, established in 1989, is an independent statutory body governed by the SFO, setting out its powers, roles and responsibilities. The regulatory objectives of the SFC as set out in the SFO are as follows:

- (i) to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;
- (ii) to promote understanding by the public of financial services including the operation and functioning of the securities and futures industry;
- (iii) to provide protection for members of the public investing in or holding financial products;
- (iv) to minimise crime and misconduct in the securities and futures industry;
- (v) to reduce systemic risks in the securities and futures industry; and
- (vi) to assist the Financial Secretary of Hong Kong in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

The SFC is the only Hong Kong financial regulator given the mandate to educate the investing public. Following the enactment of the Securities and Futures (Amendment) Ordinance 2012, the Investor Education Centre was formed as an SFC subsidiary to educate the public on a broad range of retail financial products and services.

The SFC is divided into 5 operational divisions: Corporate Finance, Enforcement, Investment Products, Supervision of Markets and Intermediaries (including Licensing and Intermediaries Supervision). The SFC is also supported by the Legal Services and Corporate Affairs division.

REGULATORY OVERVIEW

Below are participants, including investors, in the securities and futures market that SFC regulates in achieving the regulatory objectives under the SFO:

- Brokers, investment advisers, fund managers and intermediaries carrying out the regulated activities as listed in the sub-paragraph "Licensing regime" below
- Investment products
- Listed companies
- Hong Kong Exchanges and Clearing Limited
- Automated trading service providers
- Approved share registrars
- Investor Compensation Company Limited
- Market participants (including investors)

Licensing regime

The SFC regulates, among others, licensed corporations and individuals carrying on type 1 to type 10 regulated activities under the SFO, investment products offered to the public, listed companies, HKEx, approved share registrars and all participants in trading activities.

The SFC operates a system whereby they authorise corporations and individuals (through licences) to act as financial intermediaries. Under the SFO, a corporation which is not an authorised financial institution (means an authorised institution as defined in Section 2(1) of the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) and is:

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

must be licensed by the SFC to carry out the regulated activities, unless one of the exemptions under the SFO applies.

REGULATORY OVERVIEW

Through licensing, the SFC regulates the financial intermediaries of licensed corporations and individuals that are carrying out the following regulated activities under Schedule 5 to the SFO:

- Type 1: Dealing in securities
- Type 2: Dealing in futures contracts
- Type 3: Leveraged foreign exchange trading
- Type 4: Advising on securities
- Type 5: Advising on futures contracts
- Type 6: Advising on corporate finance
- Type 7: Providing automated trading services
- Type 8: Securities margin financing
- Type 9: Asset management
- Type 10: Providing credit rating services

Following the enactment of the Securities and Futures (Amendment) Ordinance (the "**Amended Ordinance**") two additional types of updated activities, being type 11 (dealing in OTC derivative products or advising on OTC derivative products) and type 12 (providing client clearing services for OTC derivative transactions). The operation of type 11 regulated activities has not begun and the operation of type 12 regulated activities will be implemented gradually.

De Riva is a corporation licensed to carry on type 1 (dealing in securities) regulated activities and type 2 (dealing in futures contracts) under the SFO on condition that De Riva shall only provide services to Professional Investors.

Classification of Professional Investors

The SFO and the Securities and Futures (Professional Investor) Rules (Chapter 571D of the Laws of Hong Kong) set out criteria for persons that can be prescribed as being within the meaning of "professional investor" for the purpose of any provision of the SFO other than Schedule 5. Such criteria form the basis for the classification of professional investors and non-professional investors by De Riva.

The term "professional investor" is defined under the SFO to mean:

- (a) any recognised exchange company, recognised clearing house, recognised exchange controller or recognised investor compensation company, or any person authorised to provide automated trading services under section 95(2) of the SFO;

REGULATORY OVERVIEW

- (b) any intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
- (c) any authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong;
- (d) any insurer authorised under the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
- (e) any scheme which—
 - (i) is a collective investment scheme authorised under section 104 of the SFO; or
 - (ii) is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place,or any person by whom any such scheme is operated;
- (f) any registered scheme as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), or its constituent fund as defined in section 2 of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A of the Laws of Hong Kong), or any person who, in relation to any such registered scheme, is an approved trustee or service provider as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) or who is an investment manager of any such registered scheme or constituent fund;
- (g) any scheme which—
 - (i) is a registered scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong); or
 - (ii) is an offshore scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) and, if it is regulated under the law of the place in which it is domiciled, is permitted to be operated under the law of such place,

REGULATORY OVERVIEW

or any person who, in relation to any such scheme, is an administrator as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong);

- (h) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency;
- (i) except for the purposes of Schedule 5 to the SFO, any corporation which is—
 - (i) a wholly owned subsidiary of—
 - (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or
 - (B) an authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong;
 - (ii) a holding company which holds all the issued share capital of—
 - (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or
 - (B) an authorised financial institution, or any bank which is not an authorised financial institution but is regulated under the law of any place outside Hong Kong; or
 - (iii) any other wholly owned subsidiary of a holding company referred to in subparagraph (ii); or
- (j) any person of a class which is prescribed by rules made under section 397 of the SFO for the purposes of this paragraph as within the meaning of this definition for the purposes of the provisions of the SFO, or to the extent that it is prescribed by rules so made as within the meaning of this definition for the purposes of any provision of the SFO.

REGULATORY OVERVIEW

For the purposes of paragraph (j) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO as set out above, the following persons are prescribed under the Securities and Futures (Professional Investor) Rules (Chapter 571D of the Laws of Hong Kong) as within the meaning of that definition for the purposes of any provision of the SFO other than Schedule 5:

- (a) any trust corporation having been entrusted under the trust or trusts of which it acts as a trustee with total assets of not less than HK\$40 million or its equivalent in any foreign currency at the relevant date or—
 - (i) as stated in the most recent audited financial statement prepared—
 - (A) in respect of the trust corporation; and
 - (B) within 16 months before the relevant date;
 - (ii) as ascertained by referring to one or more audited financial statements, each being the most recent audited financial statement, prepared—
 - (A) in respect of the trust or any of the trusts; and
 - (B) within 16 months before the relevant date; or
 - (iii) as ascertained by referring to one or more custodian statements issued to the trust corporation—
 - (A) in respect of the trust or any of the trusts; and
 - (B) within 12 months before the relevant date;
- (b) any individual, either alone or with any of his or her associates on a joint account, having a portfolio of not less than HK\$8 million or its equivalent in any foreign currency at the relevant date or—
 - (i) as stated in a certificate issued by an auditor or a certified public accountant of the individual within 12 months before the relevant date; or
 - (ii) as ascertained by referring to one or more custodian statements issued to the individual (either alone or with the associate) within 12 months before the relevant date;
- (c) any corporation or partnership having—
 - (i) a portfolio of not less than HK\$8 million or its equivalent in any foreign currency; or
 - (ii) total assets of not less than HK\$40 million or its equivalent in any foreign currency,

REGULATORY OVERVIEW

at the relevant date, or as ascertained by referring to—

- (iii) the most recent audited financial statement prepared—
 - (A) in respect of the corporation or partnership (as the case may be); and
 - (B) within 16 months before the relevant date; or
- (iv) one or more custodian statements issued to the corporation or partnership (as the case may be) within 12 months before the relevant date; and
- (d) any corporation the sole business of which at the relevant date is to hold investments and which at the relevant date is wholly owned by any one or more of the following persons—
 - (i) a trust corporation that falls within the description in paragraph (a);
 - (ii) an individual who, either alone or with any of his or her associates on a joint account, falls within the description in paragraph (b);
 - (iii) a corporation that falls within the description in paragraph (c);
 - (iv) a partnership that falls within the description in paragraph (c).

Types of intermediaries regulated by the SFC

“Intermediary” means a licenced corporation or a registered institution under Schedule 1 to the SFO and a corporation means a company or other body corporate incorporated either in Hong Kong or elsewhere, but does not include a company or other body corporate which is prescribed by rules made under Section 397 of the SFO for the purposes of this definition as being exempted from the provisions of the SFO, or to the extent that it is prescribed by rules so made as being exempted from any provision of the SFO.

According to the SFC, the types of intermediaries comprise the following:

1. *Licensed corporation*: a corporation (not being an authorised financial institution) which is granted a licence to carry on one or more than one regulated activity under Section 116 of the SFO; and *Temporary licensed corporation*: a corporation (not being an authorised financial institution) which is granted a temporary licence to carry on, for a period not exceeding 3 months, one or more than one regulated activity under Section 117 of the SFO.

REGULATORY OVERVIEW

2. *Responsible officer*: a licensed representative who is also approved as a responsible officer under Section 126 of the SFO to supervise the regulated activity of the licensed corporation to which he is accredited.
3. *Licensed representative*: an individual who is granted a licence under Section 120(1) of the SFO to carry on one or more than one regulated activity for a licensed corporation to which he is accredited;

Provisional licensed representative: an individual who is granted a provisional licence under Section 120(2) of the SFO to carry on one or more than one regulated activity for a licensed corporation to which he/she is accredited (prior to the grant of his/her licence under Section 120(1) of the SFO); and

Temporary licensed representative: an individual who is granted a temporary licence under Section 121 of the SFO to carry on, for a period not exceeding 3 months, one or more than one regulated activity for a corporation licensed under Section 116 or 117 to which he is accredited.
4. *Registered institution*: an authorised financial institution which is registered to carry on one or more than one regulated activity under Section 119 of the SFO, where an authorised financial institution means an authorised institution as defined in Section 2(1) of the Banking Ordinance (i.e. a bank, a restricted licence bank or a deposit-taking company).

OTC Reporting Regime

The Amended Ordinance provides a regulatory framework for the OTC derivatives market in Hong Kong.

The Amended Ordinance is being implemented in stages:-

- The first stage came into effect on 10 July 2015, involving mandatory reporting of transactions in certain interest rate swaps (IRS) and non-deliverable forwards and related record keeping obligations together with the general framework of the new regime;
- The second stage involves (i) mandatory clearing of certain transactions of standardised IRS in HKD or one of the G4 currencies (i.e. USD, EUR, GBP or JPY) and related record keeping obligations, together with designation of central counterparties for the purposes of mandatory clearing; and (ii) expanding mandatory reporting so that OTC derivatives under all five key asset classes (namely interest rates, foreign exchange, equities, credit and commodities) are covered. This was implemented on 1 September 2016 and 1 July 2017 respectively;
- Other aspects of the regime will follow in later stages.

REGULATORY OVERVIEW

The Amended Ordinance required counterparty to OTC derivatives transactions to report the transactions to HKMA via a designated electronic platform and to comply with the prescribed record keeping obligations. As our Group provides derivative brokerage services and is not a counterparty to any OTC transactions, we are not required to comply with the reporting requirement under the Amended Ordinance.

Licensed Corporation

For application as a licensed corporation, the company has to be incorporated and the licensed corporation has to satisfy the SFC that it has a proper business structure, good internal control systems and qualified personnel to ensure the proper management of risks that it will encounter in carrying on the proposed business as detailed in the business plan submitted to the SFC.

Detailed guidelines to meet the requirements and expectations of the SFC are contained in the following:

- Guidelines on Competence;
- The SFC Code of Conduct;
- The ICG

Responsible Officers

Each licensed corporation must appoint at least two responsible officers to directly supervise the conduct of each type of regulated activities and must have at least one responsible officer available at all times to supervise the business of such regulated activity. The same individual may be appointed to be a responsible officer for more than one regulated activity provided that he is fit and proper to be appointed so with no conflict in the roles assumed. At least one of the responsible officers must be an executive director as defined under the SFO. All executive directors must seek the SFC's approval as responsible officers accredited to the licensed corporation.

Qualification and experience

An applicant who intends to apply to be a responsible officer must demonstrate that he/she fulfills the requirements relating to both competence and sufficient authority to supervise the business of regulated activity within the licensed corporation. He should possess appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation's regulated activities. Accordingly, he/she has to fulfill certain requirements relating to academic and industry qualification, industry experience, management experience and regulatory knowledge as required by the SFC.

REGULATORY OVERVIEW

Licensed Representative

An individual is required to be a licensed representative if he/she performs a regulated function for his/her principal which is a licensed corporation in relation to a regulated activity carried on as a business or he holds himself out as performing such function.

Qualification and experience

An applicant who intends to apply to be a licensed representative must demonstrate his/her competence required under the SFO and establish his/her requisite basic understanding of the market in which he is to work as well as the laws and regulatory requirements applicable to the industry. In assessing the applicant's competence, the SFC will consider the applicant's academic and industry qualifications as well as regulatory knowledge.

Fit and Proper

Persons applying for licences and registrations under the SFO, including the licensed representatives and the responsible officers, must be, and continue to be after the grant of such licences, fit and proper persons to be so licensed or registered. Section 129(1) of the SFO provides that, in considering whether a person is fit and proper for the purposes of licensing and registration, the SFC shall, in addition to any other matters that the SFC may consider relevant, having regard to the following:

- (i) the financial status or solvency;
- (ii) the educational or other qualifications or experience having regard to the nature of the functions which, if the application is allowed, the person will perform;
- (iii) the ability to carry on the regulated activity competently, honestly and fairly; and
- (iv) the reputation, character, reliability and financial integrity of the applicant.

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

REGULATORY OVERVIEW

Furthermore, Section 129(2) of the SFO empowers the SFC to consider any of the following matters in considering whether a person is fit and proper:

- (i) decisions made by such relevant authorities as stated in Section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, which, in the opinion of the SFC, performs a function similar to the functions of the SFC, in respect of that person;
- (ii) in the case of a corporation, any information relating to:
 - (a) any other corporation within the group of companies; or
 - (b) any substantial shareholder or officer of the corporation or of any of its group companies;
- (iii) in the case of a corporation licensed under Section 116 or Section 117 of the SFO or registered under Section 119 of the SFO or an application for such licence or registration:
 - (a) any information relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and
 - (b) whether the person has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions;
- (iv) in the case of a corporation licensed under Section 116 or Section 117 of the SFO or an application for the licence, any information relating to any person who is or to be employed by, or associated with, the person for the purposes of the regulated activity; and
- (v) the state of affairs of any other business which the person carries on or proposes to carry on.

The SFC is obliged to refuse an application if the applicant fails to satisfy the SFC that he is a fit and proper person to be licensed. The onus is on the applicant to make out a case that he is fit and proper to be licensed for the regulated activity. In relation to an application to be registered under Section 119 of the SFO by an authorised financial institution, the SFC is also obliged to have regard to the advice given to it by the Hong Kong Monetary Authority as to whether it has been satisfied that the applicant is a fit and proper person and the SFC may rely on such advice wholly or partly.

REGULATORY OVERVIEW

Minimum capital requirements

Depending on the type of regulated activity, licensed corporations have to maintain at all times paid-up share capital and liquid capital not less than the specified amount according to the FRR. The FRR sets out the computation of a number of variables in respect of all the liquid assets (the values of which are subject to adjustments to cater for factors such as illiquidity and credit risks as prescribed under Division 3 of Part 4 of the FRR) and ranking liabilities (being the sum of the liabilities on the balance sheet after adjustments to cater for factors such as market risks and contingency as prescribed under Division 4 of Part 4 of the FRR) of a licensed corporation and its liquid assets must exceed its ranking liabilities. If a licensed corporation conducts more than one type of regulated activity, the minimum paid-up share capital and liquid capital that it must maintain shall be the higher or the highest amount required amongst those regulated activities.

Minimum paid-up share capital requirement

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

Regulated activity	Minimum paid-up share capital
Type 1: Dealing in securities	
(i) in the case where the licensed corporation in question is an approved introducing agent or a trader	Not applicable
(ii) in the case where the licensed corporation in question provides securities margin financing	HK\$10,000,000
(iii) in any other case	HK\$5,000,000
Type 2: Dealing in futures contracts	
(i) in the case where the licensed corporation in question is an approved introducing agent, a trader or a futures non-clearing dealer	Not applicable
(ii) in any other case	HK\$5,000,000

De Riva, being a corporation licensed to carry on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO but does not provide securities margin financing, is required to have a minimum paid-up share capital of HK\$5.0 million.

REGULATORY OVERVIEW

Minimum required liquid capital

The following table summarises the minimum required liquid capital that a licensed corporation is required to maintain for type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities:

Regulated activity	Minimum required liquid capital
Type 1: Dealing in securities	
(i) in the case where the licensed corporation in question is an approved introducing agent or trader	HK\$500,000
(ii) in any other case	HK\$3,000,000
Type 2: Dealing in futures contracts	
(i) in the case where the licensed corporation in question is an approved introducing agent, futures non-clearing dealer or trader	HK\$500,000
(ii) in any other case	HK\$3,000,000

Pursuant to the FRR, a licensed corporation which is licensed for 2 or more regulated activities shall maintain a minimum required liquid capital at all times of an amount which is the higher of (a) the amount which is the higher or highest upon comparing the specified amount for each such regulated activity (figures for regulated activities relevant to De Riva are set out in the table above); and (b) its variable required liquid capital, which, for a licensed corporation licensed for any regulated activity other than type 3 regulated activity, means the basic amount, i.e. 5.0% of the aggregate of (i) the sum of the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding (a) amounts payable to clients in respect of client money held by the licensed corporation in a segregated account in accordance with the Securities and Futures (Client Money) Rules (Chapter 571 of the Laws of Hong Kong) or with an authorised financial institution (to the extent not covered by the preceding) or an approved bank incorporated outside Hong Kong or with a futures or options clearing house or client money held by the licensed corporation with a clearing house other than a futures or options clearing house or a clearing participant or a futures dealer or a securities dealer as margin in respect of outstanding futures contracts and outstanding options contracts held on behalf of its clients and (b) an approved subordinated loan provided to the licensed corporation; (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by the licensed corporation on behalf of its clients; and (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and

REGULATORY OVERVIEW

outstanding options contracts held by the licensed corporation on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

Accordingly, pursuant to the FRR, De Riva, being a corporation licensed to carry on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO which is not an approved introducing agent, futures non-clearing dealer or trader, shall also maintain at all times a minimum required liquid capital of at least HK\$3.0 million.

Our Directors confirm that De Riva has at all times complied with each of the above continuing compliance obligations, including FRR and SFC licensing requirements, during the Track Record Period and up to the Latest Practicable Date.

Continuing compliance obligations

Remaining fit and proper

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

Submission of audited accounts

A licensed corporation must submit its audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong). Such rules prescribe the contents of the annual accounts and the auditor's report of such accounts to be submitted by licensed corporations to the SFC. Licensed corporations and associated entities of intermediaries (except for those which are authorised financial institutions) are required to submit their audited accounts and other required documents within four months after the end of each financial year as required under Section 156(1) of the SFO.

Submission of financial resources returns

Licensed corporations are required to submit monthly financial resources returns to the SFC except for those licensed corporations for only type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 9 (asset management) and/or type 10 (providing credit rating services) regulated activities and their licences are subject to the condition that they shall not hold client assets. In the latter case, the licensed corporations concerned shall submit semi-annual financial resources returns to the SFC as required under Section 56 of the FRR.

Record keeping requirements

A licensed corporation must keep records in accordance with the requirements under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong), which requires licensed corporations to keep

REGULATORY OVERVIEW

proper records, it prescribes the records that are to be kept by licensed corporations to ensure that they maintain comprehensive records in sufficient detail relating to their businesses and client transactions for proper accounting of their business operations and clients' assets.

Maintenance of insurance

A licensed corporation must maintain insurance against specific risks for specific amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong).

Payment of annual fees

Under Section 138(2) of the SFO, a licensed corporation, a licensed person and a registered institution shall pay to the SFC annual fees within one month after each anniversary of the date of grant of the licence or certificate of registration (as the case may be), or on such other date as may be approved by the SFC by notice in writing. Details of the annual fees applicable to the four types of the regulated activities engaged by our Group, through De Riva, are as follows:

Type of intermediary	Annual fees for types 1 and type 2 regulated activities
Licensed corporation	HK\$4,740 per regulated activity
Licensed representative (not approved as responsible officer)	HK\$1,790 per regulated activity
Licensed representative (approved as responsible officer)	HK\$4,740 per regulated activity

On 24 March 2016, the SFC issued a circular waiving the annual licensing fee for all licensed corporations, responsible officers and licensed representatives from 1 April 2016 to 31 March 2018.

Notification to the SFC of certain changes and events

A licensed corporation must notify the SFC of certain changes and events, in accordance with the requirements under the Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong). Such changes and events which require notification include, among others, changes in the basic information of the licensed corporation, its controlling persons and responsible officers, or subsidiaries that carry out a business in a regulated activity, changes in the capital and shareholding structure of the licensed corporation, and significant changes in business plan.

Continuous professional training

According to the Guidelines on Continuous Professional Training published by the SFC, a licensed corporation is held primarily responsible for designing and implementing a continuous education system best suited to the training needs of the

REGULATORY OVERVIEW

individuals they engage which will enhance their industry knowledge, skills and professionalism. A licensed corporation should at least annually evaluate the training needs of the individuals they engage. A licensed individual must undertake a minimum of five continuous professional training hours per calendar year for each regulated activity he/she engages in.

Obligation for substantial shareholders

Under Section 132 of the SFO, a person (including a corporation) has to apply for SFC's approval prior to becoming or continuing to be, as the case may be, a substantial shareholder of a corporation licensed under Section 116 of the SFO. A person who has become aware that he has become a substantial shareholder of a licensed corporation without SFC's prior approval should, as soon as reasonably practicable and in any event within three business days after he/she becomes so aware, apply to the SFC for approval to continue to be a substantial shareholder of the licensed corporation.

Variation of regulated activity specified in licence or certificate of registration

Under Section 127(1) of the SFO, a licensed corporation may apply in the prescribed manner and payment of the prescribed fee to the SFC to vary the regulated activity specified in its licence or certificate of registration. Prior approval would also need to be obtained from the SFC in cases such as addition or reduction of regulated activity, modification or waiver of licensing conditions and change of financial year end.

Modification or waiver of licensing requirements

Under the licensing requirements, a licensed corporation may apply in the prescribed manner and payment of the prescribed fee to the SFC for modification or waiver of the conditions imposed or certain other requirements specified in Section 134 of the SFO.

Employee dealings

As mentioned in the Code of Conduct, a registered person should have a policy which has been communicated to employees (including directors other than non-executive directors) in writing regarding whether employees are permitted to deal for their own accounts in securities. In the event that employees of a registered person are permitted to deal for their own accounts in securities:

- (a) the written policy should specify the conditions on which employees may deal for their own accounts;
- (b) employees should be required to identify all related accounts (including accounts of their minor children and accounts in which the employees hold beneficial interests) and report them to senior management;
- (c) employees should generally be required to deal through the registered person or its affiliates;

REGULATORY OVERVIEW

- (d) if the registered person provides services in securities or futures contracts listed or traded on one of the Hong Kong exchanges or in derivatives, including OTC derivatives written over such securities, and its employees are permitted to deal through another dealer, in those securities, the registered person and employee should arrange for duplicate trade confirmations and statements of account to be provided to senior management of the registered person;
- (e) any transactions for employees' accounts and related accounts should be separately recorded and clearly identified in the records of the registered person; and
- (f) transactions of employees' accounts and related accounts should be reported to and actively monitored by senior management of the registered person who should not have any beneficial or other interest in the transactions and who should maintain procedures to detect irregularities and ensure that the handling by the registered person of these transactions or orders is not prejudicial to the interests of the registered person's other customers.

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

Hong Kong Exchanges and Clearing Limited

Apart from the SFC, HKEx also plays a leading role in regulating companies seeking admission to the Hong Kong stock markets and supervising those companies once they are listed.

HKEx is a recognised exchange controller under the SFO. It owns and operates the only securities and futures exchanges in Hong Kong, namely the Stock Exchange and the Hong Kong Futures Exchange Limited, and their related clearing brokers. The duty of HKEx is to ensure orderly and fair markets and that risks are managed prudently, consistent with the public interests and in particular, the interests of the investing public.

In its role as the operator and frontline regulator of the central securities and derivatives marketplace in Hong Kong, HKEx regulates listed issuers; administers listing, trading and clearing rules; and provides services, primarily at the wholesale level, to customers of the exchanges and clearing houses, including issuers and intermediaries — investment banks or sponsors, securities and derivatives brokers, custodian banks and information vendors — who serve the investors directly. These services comprise trading, clearing and settlement, depository and nominee services, and information services.

REGULATORY OVERVIEW

HKCC has been established to provide services for the clearing and settlement of transactions on the markets operated by HKFE. Every HKCC Participant must be a HKFE Exchange Participant. HKCC Participantship is not open to anyone other than HKFE Exchange Participants. HKCC Participants may be registered under one of the following categories: General Clearing Participants or Clearing Participants and all HKCC Participants are subject to the Rules of Hong Kong Futures Exchange Limited and the Rules of HKFE Clearing Corporation Limited.

The rules promulgated by the Stock Exchange and the Futures Exchange require any person who wishes to trade on or through their respective facilities to hold a trading right. The trading right confers on its holder the eligibility to trade on or through the relevant exchange. However, the holding of a trading right does not, of itself, permit the holder to actually trade on or through the relevant exchange. In order to do this, it is also necessary for the person to be registered as a participant of the relevant exchange in accordance with its rules, including those requiring compliance with all relevant legal and regulatory requirements.

HKCC has two categories of Participantship, each of which has different conditions and privileges:

- (1) General Clearing Participant - A participant which registers and clears trades for its own and clients accounts and on behalf of Non-Clearing Participants.
 - be a HKFE Exchange Participant.
 - have a liquid capital of not less than the higher of:
 - (a) its required liquid capital under the Financial Resources Rules; or
 - (b) HK\$20,000,000.
 - contribute HK\$7,500,000 Participant Deposit to the Reserve Fund referred to in Chapter VII of the HKCC Rules.
- (2) Clearing Participant – A participant which only registers and clears trades for its own and clients accounts.
 - be a HKFE Exchange Participant.
 - have a liquid capital of not less than the higher of:-
 - (a) its required liquid capital under the Financial Resources Rules; or
 - (b) HK\$5,000,000.

REGULATORY OVERVIEW

- contribute HK\$1,500,000 Participant Deposit to the Reserve Fund referred to in Chapter VII of the HKCC Rules.

According to the Rule 401 of the Rules of Exchange, every Exchange Participant shall at all times comply with the FRR and where applicable the financial resources requirements made under Rule 408.

Section 4 of the FRR required that a licensed corporation shall at all times maintain financial resources in the amount required under the Securities and Futures (Financial Resources) Rules.

Section 6 of the FRR states that

- (1) For the purposes of Section 4, a licensed corporation shall at all times maintain liquid capital which is not less than its required liquid capital.
- (2) Subsections (3) and (4) apply in respect of a licensed corporation licensed for one or more of the following
 - (a) Type 1 regulated activity;
 - (b) Type 2 regulated activity;
 - (c) Type 3 regulated activity;
 - (d) Type 8 regulated activity,unless it is
 - (e) in the case of paragraph (a), an approved introducing agent or a trader;
 - (f) in the case of paragraph (b), an approved introducing agent, a trader or a futures non-clearing dealer; or
 - (g) in the case of paragraph (c), an approved introducing agent.
- (3) Subject to subsection (4)
 - (a) on any particular business day on which a licensed corporation's required liquid capital rises above its liquid capital; and

REGULATORY OVERVIEW

- (b) where applicable, on any one or more consecutive business days immediately following the day referred to in paragraph (a) on which there continues to be a required liquid capital deficit,

the licensed corporation will be regarded as having complied with subsection (1) if

- (c) it is entitled to draw down an amount not less than the required liquid capital deficit under an approved standby subordinated loan facility; and
 - (d) its required liquid capital on the day that its required liquid capital rises above its liquid capital is at least 20% more than its required liquid capital at the close of business on the previous business day, as a result of
 - (i) an increase in its adjusted liabilities which is attributable to an increase in its dealings in securities for its clients;
 - (ii) an increase in the aggregate of the initial margin requirements, or of the amounts of margin required to be deposited, in respect of outstanding futures contracts or outstanding options contracts held by it on behalf of its clients;
 - (iii) an increase in its aggregate gross foreign currency position;
 - (iv) an increase in its adjusted liabilities which is attributable to an increase in the aggregate of the amounts receivable from its margin clients; or
 - (v) where applicable, the aggregate of the increases described in 2 or more of subparagraph (i), (ii), (iii) or (iv).
- (4) Subsection (3) only applies on a day referred to in subsection (3)(a) or (b) if, during the 60 days immediately preceding that day, the required liquid capital of the licensed corporation has exceeded its liquid capital on 4 or less business days.

REGULATORY OVERVIEW

Anti-money Laundering and Terrorist Financing

Money laundering covers a wide range of activities and processes intended to alter the identity of the source of criminal proceeds in a manner which disguises their illegal origin. Terrorist financing is a term which includes the financing of terrorist acts, and of terrorist and terrorist organisations. It extends to any funds, whether from a legitimate or illegitimate source.

Licensed corporations are required to comply with applicable anti-money laundering laws and regulations in Hong Kong. The four main pieces of legislation in Hong Kong that are concerned with money laundering and terrorist financing are the Anti-Money Laundering and Counter Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong), the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong), the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong). The SFC has also published (1) Prevention of Money Laundering & Terrorist Financing Guideline (April 2012); and (2) Guideline on Anti-Money Laundering and Counter Terrorist Financing (April 2015) which require licensed corporations to, among other things, adopt and enforce "know-your-clients" policies and procedures. Staff of licensed corporations who know, suspect or have reasonable grounds to believe that a customer might have engaged in money laundering activities must immediately report to the compliance division of its organisation which, in turn, will be reported to the Joint Financial Intelligence Unit.

B. OUR GROUP'S COMPLIANCE

In relation to the aforesaid compliance obligations, our Group has adopted various measures as set out in our Group's internal manuals to ensure compliance with the applicable ordinances, rules, regulations, code of conducts and relevant guidelines as discussed above.

In particular, our Group's internal manuals also cover registration and notification requirements with the SFC, know-your-client requirements, anti-money laundering measures and compliance and operational procedures in carrying out the regulated activities.

De Riva is an Exchange Participant of Hong Kong Exchange Limited under the category of Futures Commission Merchants. Accordingly, De Riva is subject to the Rules, Regulations and Procedures of the Futures Exchange.

In relation to our SGX derivatives brokerage business, as all of our SGX related trades are conducted through other execution brokers, accordingly our Group is not subjected directly to the relevant rules and regulations in Singapore.

REGULATORY OVERVIEW

In relation to the Eurex MSCI derivatives market which our Group plans to expand into, the trades will be conducted OTC, as such these transactions will not be subject to Eurex regulatory regime.

REGULATORY AND SHAREHOLDERS’ APPROVAL REQUIRED FOR REORGANISATION AND [REDACTED]

Our Group has obtained approval from the SFC regarding the change of substantial shareholder in De Riva under the Reorganisation on 31 January 2018. Such changes need to be completed within 6 months after the grant of the approval or else further approval will need to be obtained from the SFC. On 26 July 2018, the SFC granted an extension of the validity of the approval for the change of substantial shareholders of De Riva up to 31 August 2018. Following the Reorganisation, the change of substantial shareholders was completed on 3 August 2018.

For details of the Reorganisation, please refer to the section headed “History, Reorganisation and corporate structure” in this document.

For Shareholders’ approval, please refer to the paragraph headed “A. Further information about our Group — 3. Written resolutions of our Shareholders passed on 30 July 2018” in Appendix IV to this document.