
HISTORY, REORGANISATION AND GROUP STRUCTURE

HISTORY AND DEVELOPMENT

Bright Smart Securities and Bright Smart Futures serve as the securities brokerage arm and futures and options brokerage arm of the Group respectively. The Group has now extended its service coverage from securities, futures and options brokerage in Hong Kong to a wide range of financial products traded in the US and Singapore exchanges. The Group also offers credit facilities to its clients who would like to purchase securities on a margin basis.

The commencement of the securities brokerage business could be traced back to 1992 when Mr. Yip established a company called Bright Smart Investment Limited which was incorporated in June 1992 and was renamed as Bright Smart Securities Company Limited (“BSSC”) in January 1996. On 8 December 1998, BSSC sold to Bright Smart Securities one fully paid “A” share of HK\$1.00 in the capital of the Stock Exchange at a consideration of HK\$4.5 million, enabling Bright Smart Securities to carry out securities trading activities on the Stock Exchange. Since then, BSSC has ceased to carry on the securities brokerage business and was renamed as Golden Jumbo Investment Limited in May 1999.

Bright Smart Securities was incorporated in August 1998 under the name of Super International Company Limited which was changed to its present name of Bright Smart Securities International (H.K.) Limited in October 1998. Immediately prior to the Reorganisation, Bright Smart Securities was beneficially owned as to 100% by Mr. Yip.

Since April 1999, Bright Smart Securities has been a dealer registered under the then Securities Ordinance. Prior to the merger of the Stock Exchange and the Futures Exchange in March 2000 (the “Merger”), the Group provided securities brokerage service to its clients through the holding of share(s) of the Stock Exchange, which enabled Bright Smart Securities to conduct trading activities on the Stock Exchange. Immediately prior to the Merger, Bright Smart Securities held an “A” share of the Stock Exchange. Following the Merger, holders of share(s) of the Stock Exchange turned into holders of Stock Exchange Trading Right(s), and Bright Smart Securities became a Stock Exchange Participant eligible to conduct trading activities on the Stock Exchange.

Bright Smart Futures was incorporated in November 1995 and registered under the present name of Bright Smart Futures & Commodities Company Limited. Immediately prior to the Reorganisation, Bright Smart Futures was effectively wholly-owned by Mr. Yip.

On 1 April 2003, when the Hong Kong Government abolished the minimum brokerage commission requirement, the Group immediately reduced its brokerage commission rate, laying the groundwork for an increasing market share afterwards. At that time, the Group’s brokerage commission was reduced from 0.25% with a minimum charge of HK\$100, to 0.05% with a minimum charge of HK\$50. Since then, the Group has been carrying out extensive sales and marketing activities which include holding investment seminars and placing advertisements through various media to build up its market position and mainly targeted at retail clients. Following these extensive sales and marketing activities, the Group’s client base has an overall increase. In January 2005, the introduction of online securities trading services allowed the Group to charge a brokerage commission as low as 0.068% with a minimum charge of HK\$50. It not only enabled the clients to reduce their own cost of investments, but also assisted the Group in increasing its market share of its brokerage business. Effective from 1 June 2008 and as at the Latest Practicable Date, the Group charged a brokerage commission rate of 0.0668% (with a minimum charge of HK\$50) based on transaction value for online trading. For individual clients with high trading volume, various schemes of brokerage commission rebate rate are available, where effective brokerage

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commission rate can be as low as 0.01% for monthly transaction amounts (in monetary terms) above certain threshold. The online futures and options trading services were introduced by the Group in October 2007. Furthermore, the Group also provides IPO financings at competitive interest rates in order to expand its market share.

To meet with the fast growing businesses, Bright Smart Securities and Bright Smart Futures have been strengthening their capital bases from time to time. Share capital of Bright Smart Securities and Bright Smart Futures increased from HK\$15 million and HK\$15 million respectively as at 31 March 2003 to HK\$110 million and HK\$20 million respectively as at 31 March 2010.

The Group started to provide an online trading platform for its securities trading activities since January 2005, and its futures and options trading activities since October 2007. Online trading allows clients of the Group to conduct securities investment transactions over the internet. With the online trading business, clients can place, execute or cancel orders online. Online trading services provided by the Group is secure and convenient as it involves minimum human control over the transactions. Clients' trading instructions are sent directly to an automated channel of the HKEx for matching. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. With the improved online trading technology, the online trading platform not only enables speedy order placing and secure trading, but also enables clients to conduct their own transactions without the involvement of the Group's dealers, which greatly reduced the operation costs of the Group, and at the same time boosted the aggregate transaction amounts. With reduced operation costs as a result of the online trading platform, the Group is able to charge a low brokerage commission rate to its clients.

Provision of electronic online trading is generally (including placing of an order, amending, canceling and executing of such order) regulated by the SFO. However, the Group provides trading services which merely route the trade orders placed by its clients to the Stock Exchange for execution via electronic means. On the basis that the transaction orders between customers cannot be automatically matched within the electronic facilities of the Group and that all such orders have to be executed through the Stock Exchange, the Directors confirmed that the Group only provides electronic order routing facilities which does not fall into the definition of automated trading services ("ATS" as defined in Schedule 5 to the SFO). According to frequently asked questions posted by the SFC on 23 June 2004, the provision of order routing services would not generally be regarded as Type 7 (providing automated trading services) regulated activity and accordingly, the Group is not required to obtain any such licence for its online securities trading. Based on the confirmation by the Directors that the Group only provides order routing services and the provision of such routing services do not fall into the definition of ATS as defined in Schedule 5 of the SFO, the legal adviser of the Company on Hong Kong law advises that the provision of such routing services by the Group would not require to be licensed for Type 7 (providing automated trading services) regulated activity.

The Group recognises the importance of safeguarding its clients' money and takes all reasonable steps to ensure that all transactions are secure. Orders placed online are processed automatically, including control procedures such as checking of client's fund and securities on hand with no dealer's handling are normally required. The Group only allows its licensed persons (as defined under the SFO) to handle follow up services in respect of online trading (e.g. when certain orders exceed limits of a particular account, or when some wrong orders are placed which are being "rejected" by the Group,

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etc). All the staff of the Group currently performing regulated activities, including staff members in the Dealing Department handling clients' orders, are properly registered under SFO as either Licensed Representatives or Responsible Officers.

In February 2009, Bright Smart Securities entered into an agreement with the computer system vendor, pursuant to which Bright Smart Securities is granted a licence to develop, manage and maintain the online trading system by its own information technology ("IT") team. The present head of Information Technology Department of the Group, Wong Wing Man, who is also one of the original developers of the Group's securities trading system, was hired in March 2009 and was then responsible for all computer systems and software maintenance and upgrading, as well as the formulation of contingency backup plans for the Group's computer system. A contingent site was also set up in Wan Chai in 2008, which served as a backup office for the Group in case the headquarter of the Group in Central is not operational due to any incident. According to the Group's records, except for two system failures occurred in November 2007 and November 2008 as a result of substantial number of system login requests and a problem within a software program of the trading system respectively which were later rectified, as confirmed by the Directors, there were no other system breakdown or disruptions to the computer systems used by Group including but not limited to computer viruses, hackers, other disruptive actions by visitors or other internet users during the Track Record Period, which had a material adverse effect on the business and/or operations of the Group. The Directors confirmed that the two system failures as mentioned above caused temporary delays in the online trading system. The claims involved in the system failures in November 2007 and November 2008 amounted to approximately HK\$6,000 and HK\$4,000 respectively, which the Directors considered to be not material to the Group. The Directors advised that there were no further claims in relation to the above two system failures after November 2008 up to the Latest Practicable Date. For measures implemented by the Group to prevent computer system breakdown in future, please refer to the section headed "Business — Information technology related controls" in this prospectus.

Leveraged on its strengths of low brokerage commission rate and quality services, the Group's businesses are in general expanding very fast with increasing number of clients and recognised brand name. For each of the three years ended 31 March 2008, 2009 and 2010, the Group attracted 4,071, 2,839 and 4,858 new securities, futures and options clients respectively, which represented a growth in overall client base of approximately 68.0%, 29.4% and 40.1% respectively. In addition, according to the information from HKEx, Bright Smart Securities has been qualified as a Constituency B Exchange Participant since the first half of 2006, which represented the group of Exchange Participants ranked fifteenth to sixty-fifth in terms of market share, with the market share of Bright Smart Securities increasing in general since then.

For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange's securities trading as announced by the Stock Exchange.

In 2007, the Group rented from a company wholly-owned by Mr. Yip the 10th floor of Wing On House located at Central as its head office, with the gross floor area of approximately 15,946 square feet.

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The Group has also been selected as a caring company by the Hong Kong Council of Social Service in 2010 in recognition of its community involvement and commitment of being a corporate citizen.

The Group established the Research Department and the Marketing Department in July 2007 and October 2006 respectively to strengthen the Group's research capability and to improve the Group's marketing ability. In 2008, in order to further strengthen the Group's brand name and image, the Group recruited Kwok Sze Chi ("Mr. Kwok"), an experienced stock analyst, as the marketing director of the Group. To enhance the quality of service and reinforce communications with clients, regular investment seminars are held by the Group and led by Mr. Kwok to provide clients with the latest stock market analysis.

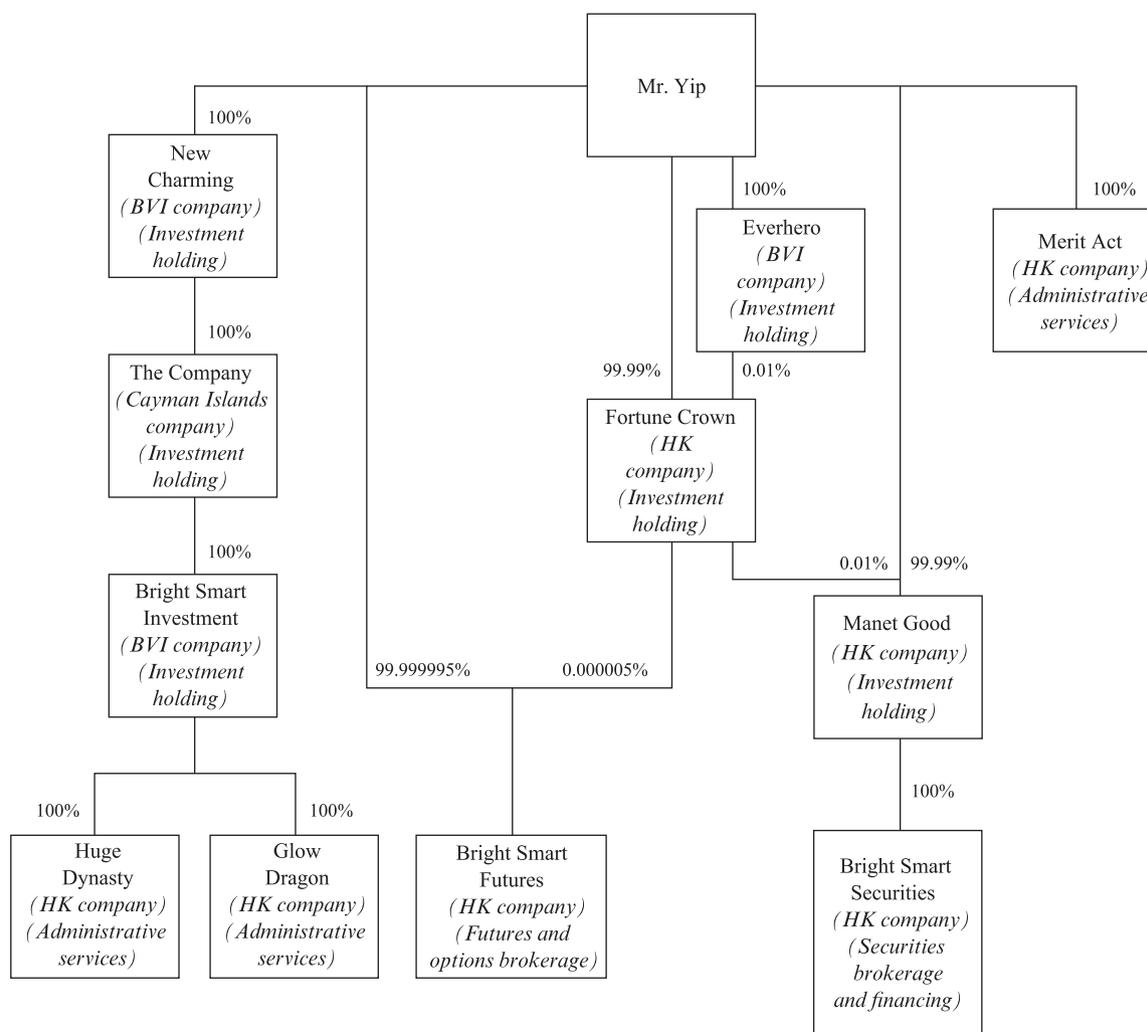
In March 2009, the Group cooperated with a telecommunication service provider to provide 3rd generation mobile streaming real-time stock quotes and trading service, thereby providing an additional means for the Group's clients to monitor market performance and to conduct trading activities. As an additional service to the Group's clients, in March 2009, the global futures trading service was introduced to allow clients to get access to futures products traded on the exchange in the US and the Group further extended its brokerage services to futures products traded on the exchange in Singapore in September 2009.

The Group opened its first branch office in Tsuen Wan on 28 December 2009, and subsequently opened nine additional branches up to the Latest Practicable Date, for the purpose of attracting new clients, and to facilitate and provide better customer services to its clients. The capital expenditure used in the establishment of the ten existing branches was funded by the Group's internal resources and the future working capital requirement to support the ten existing branches will also be funded by the Group's internal resources.

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REORGANISATION

Set out below is the Group's structure immediately prior to the Reorganisation:



STRATEGIC INVESTMENTS FROM BOCOM INTERNATIONAL HOLDINGS

BOCOM International Holdings is a wholly-owned subsidiary and investment banking division of Bank of Communications Co., Ltd, which was listed on the Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007. Leveraging on the brand name as well as the experience of Bank of Communications Co., Ltd. in the financial services sector, with BOCOM International Holdings being a strategic investor, the Directors believe that the Group will be in a better position to promote its brand name and to build up its position as a leading online securities brokerage house in Hong Kong.

On 25 November 2009, Mr. Yip and BOCOM International Holdings entered into the Call Option Agreement, whereby Mr. Yip granted the Option to BOCOM International Holdings, representing the right to require Mr. Yip to sell all (but not part only) of the Option Shares to BOCOM International

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Holdings at the Exercise Price at any time during the Option Period. The consideration of the Option paid by BOCOM International Holdings to Mr. Yip was HK\$100. The exercise of the Option would lead to Mr. Yip transferring to BOCOM International Holdings the Option Shares.

BOCOM International Holdings is of the opinion that the Group is one of the well-established brokerage houses that primarily focuses on providing online brokerage services. BOCOM International Holdings as a strategic investor recognised this future potential and decided to complete this investment by exercising the Option.

Pursuant to the Call Option Agreement, BOCOM International Holdings exercised the Option to require Mr. Yip to transfer the Options Shares to BOCOM International Holdings on 2 July 2010. On the same date, Mr. Yip procured New Charming to transfer 50,000,000 Shares from New Charming to BOCOM International Holdings for a consideration of HK\$11,403,857, which was fully settled by BOCOM International Holdings on 2 July 2010. The 50,000,000 Shares represent approximately 30.0% of the Offer Shares (assuming the Over-allotment Option is not exercised), 10% of the total issue share capital of the Company upon completion of the sale and purchase of the Option Shares and 7.5% of the total issue share capital of the Company immediately after the Share Offer (assuming the Over-allotment Option is not exercised).

According to the Call Option Agreement, the exercise price shall be equivalent to 7.5% of the equity attributable to equity holders of the Company as at 31 March 2010 as shown in Hong Kong Accounts or HK\$20,000,000, whichever is lower. Based on the Accountants' Report set out in Appendix I to this prospectus, as the amount equivalent to 7.5% of the equity attributable to equity holders of the Company as at 31 March 2010 as shown in the said account is lower than HK\$20,000,000, the consideration shall be HK\$11,403,857. Based on the total Shares to be held by BOCOM International Holdings immediately following completion of the Share Offer of 50,000,000 Shares, the investment cost per Share for BOCOM International Holdings amounted to approximately HK\$0.23, which represents a discount of approximately 86% as compared with the maximum Offer Price. The Joint Sponsors are of the view that BOCOM International Holdings assumed genuine investment risk under the Call Option Agreement upon payment of the exercise price of the Option Shares to Mr. Yip, the ultimate beneficial owner of New Charming. When the Call Option Agreement was signed on 25 November 2009, BOCOM International Holdings and Mr. Yip agreed that the exercise price under the Call Option Agreement should be determined by reference to the equity attributable to equity holders of the Company as at 31 March 2010. BOCOM International Holdings assumed genuine investment risk under the Call Option Agreement upon payment of the exercise price of the Option Shares to Mr. Yip, the ultimate beneficial owner of New Charming on 2 July 2010, at which point of time, the Company was not listed and the Option Shares were not tradable on the Stock Exchange. Hence the Exercise Price has a significant discount when compared with the maximum Offer Price, which is determined based on the expected market capitalisation of the Company upon Listing.

After completion of the sale and purchase of the Option Shares, Mr. Yip shall procure (i) Bright Smart Securities and Bright Smart Futures to distribute no less than 80% of its profit available for distribution and (ii) each of the members of the Group (excluding Bright Smart Securities and Bright Smart Futures) to distribute 100% of its profit available for distribution for each financial year. Such provision will cease to operate upon Listing. Upon Listing, the shareholders' rights of Mr. Yip, New Charming and BOCOM International Holdings will not be different to those of the Shareholders.

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BOCOM International Holdings undertakes to Mr. Yip and the Company that it will not sell or transfer or otherwise dispose of, or create any encumbrances on, its legal or beneficial interest in any of the Option Shares during the period from completion of the sale and purchase of the Option Shares up to and including the date falling six months after the Listing Date.

BOCOM International Asia is one of the Joint Sponsors. BOCOM International Asia is a wholly-owned subsidiary of BOCOM International Holdings, which is a wholly-owned subsidiary of Bank of Communications Co., Ltd. Given the investment in the Company by BOCOM International Holdings, BOCOM International Asia does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

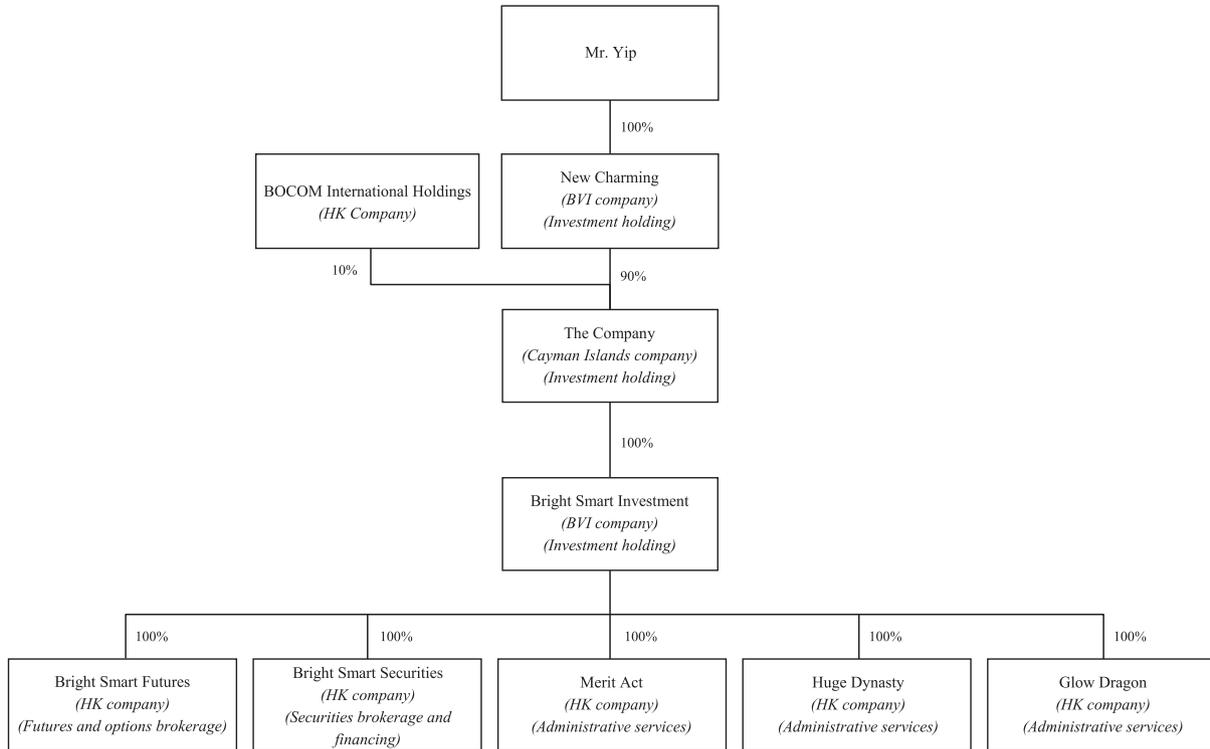
Bank of Communications Co., Ltd. Hong Kong Branch, being a branch of Bank of Communications Co., Ltd., provides general banking facilities to Bright Smart Securities for the sole purpose of financing the IPO financing business of Bright Smart Securities pursuant to a master staging facility letter (stockbroker/securities margin financier) dated 10 September 2008. The maximum outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch from the date of submission of the listing application of the Company to the Stock Exchange up to 31 July 2010 was approximately HK\$2,273.3 million, and there was no outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch as at 31 July 2010.

Bank of Communications Co., Ltd. Hong Kong Branch also provides to China Finance general banking facilities in a maximum amount of approximately HK\$250 million, and a revolving loan in a maximum amount of approximately HK\$148 million for the purpose of shareholder's capital injection or shareholder's loan of Bright Smart Securities during which period Bright Smart Securities is conducting IPO financing. The maximum outstanding loan amount due from China Finance to Bank of Communications Co., Ltd. Hong Kong Branch from the date of submission of the listing application of the Company to the Stock Exchange up to 31 July 2010 was approximately HK\$443.9 million.

BOCOM International Securities, being a wholly-owned subsidiary of BOCOM International Holdings, which is a wholly-owned subsidiary of Bank of Communications Co., Ltd, is the Bookrunner, Lead Manager and one of the Underwriters. Bank of Communications Co., Ltd. Hong Kong Branch is one of the receiving bankers for the Public Offer.

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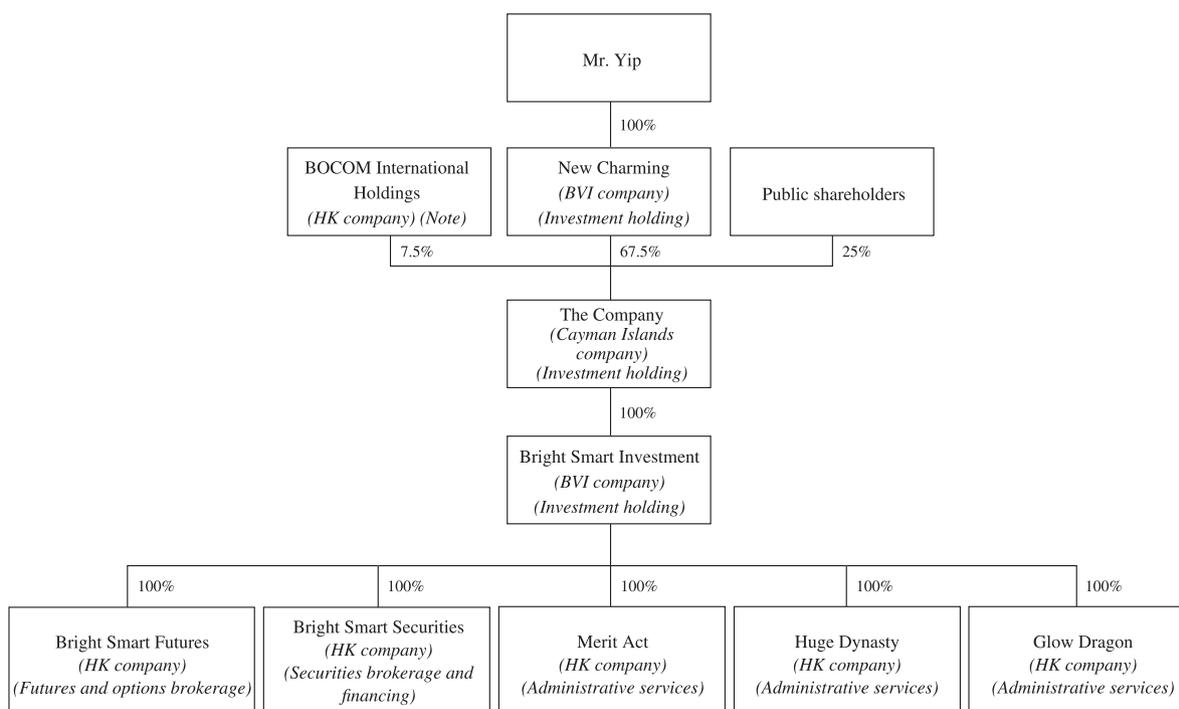
Set out below is the shareholding structure of the Group after completion of the Reorganisation and as at the Latest Practicable Date:



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CORPORATE STRUCTURE

The shareholding structure of the Group following the Share Offer (assuming the Over-allotment Option and any options that may be granted under the Share Option Scheme are not exercised) is illustrated diagrammatically as follows:



Note: BOCOM International Holdings undertakes to Mr. Yip and the Company that it will not sell or transfer or otherwise dispose of, or create any encumbrances on, its legal or beneficial interest in any of the Option Shares during the period from completion of the sale and purchase of the Option Shares up to and including the date falling six months after the Listing Date.