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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer, the Controlling Shareholders will together control the exercise of voting rights of approximately 67.5% of the Shares eligible to vote in the general meeting of the Company (assuming the Over-allotment Option is not exercised). To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, New Charming is wholly-owned by Mr. Yip and as such, both Mr. Yip and New Charming are regarded as the Company's Controlling Shareholders. Save for their respective interests in the Company and its subsidiaries, none of the Controlling Shareholders had any other interests in the Shares.

### Deed of Non-Competition

In order to protect the Group's interest in its business activities, the Company and the Controlling Shareholders entered into the Deed of Non-competition on 6 August 2010. Under the terms of the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of each of its subsidiaries for the time being) that with effect from the Listing Date and for so long as he remains as a Director and/or a Controlling Shareholder and the Shares remain listed on the Stock Exchange, each of them will not, and will procure that its associates (other than the Group) will not, (i) on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), director, employee, partner, agent or otherwise, any business that compete or may compete, directly or indirectly or through nominees, with the business undertaken by the Group from time to time ("Restricted Business"), (ii) on its own account or for the account of any person solicit business in connection with the Restricted Business from any customer of the Group which during such period is a customer of any members of the Group in connection with the Restricted Business; and (iii) except with prior written consent of the Company, induce or attempt to induce any director, manager or employee of the Group to terminate his service contract or employment with the Group, whether or not such act of that person would constitute a breach of that person's service contract or contract of employment with any members of the Group.

Each of the Controlling Shareholders has also undertaken to the Company that:

- (i) it shall provide, or procure the provision of, all information and do, or procure to be done, all such other acts as may be necessary for such annual review by such independent non-executive Directors and the enforcement of the rights of the Company under the Deed of Non-competition; and
- (ii) it shall provide an annual confirmation to the Company confirming its full compliance with the terms of the Deed of Non-competition, and consenting to disclose such confirmation in the annual reports of the Company and/or as otherwise published by the Company.

The Deed of Non-competition will cease to have effect on the earlier of the date on which (i) in relation to Mr. Yip, Mr. Yip ceases to be a Director and together with his associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of the Company) or more of the issued share capital of the Company; or (ii) in relation to New Charming, New Charming ceases to be interested directly or indirectly in 30% (or such

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other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of the Company) or more of the issued share capital of the Company; or (iii) in relation to the Controlling Shareholders, the Shares cease to be listed and traded on the Stock Exchange.

The Controlling Shareholders and the Directors confirm that they do not have any interest in business apart from the Group which competes or is likely to compete, directly or indirectly, with the Group's business under Rule 8.10 of the Listing Rules.

### CORPORATE GOVERNANCE MEASURES

Each of the Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of the Company and its Shareholders as a whole. To avoid potential conflicts of interest, the Group will adopt a system of corporate governance with the following principal components:

- (i) the Group is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board which can effectively exercise independent judgment. The Company has appointed three independent non-executive Directors, one of whom has experience as an executive director of a listed company (namely, Ling Kwok Fai, Joseph). The Directors believe that the independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and professional advice to protect the interests of the minority Shareholders. The Directors also believe that the composition of the Board with directors of diverse backgrounds and experience allows the Board to evaluate its decisions from different perspectives. The Company may, where necessary, seek advice from external industry experts and/or consultants in order to provide the independent non-executive Directors with all the necessary support to enable them to exercise their independent judgment and discharge their duties and obligations to the Shareholders. Details of the independent non-executive Directors are set out in the section headed "Directors, senior management and employees" in this prospectus;
- (ii) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Deed of Non-competition and to evaluate the effective implementation of the Deed of Non-competition;
- (iii) the Controlling Shareholders undertake to provide all information requested by the Group which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;

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- (iv) the Board will ensure that any material conflict or material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered. Following the reporting of any material conflict or material potential conflict of interests, the Board will hold a meeting to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions, where necessary;
- (v) the Company will observe any transaction that is proposed between the Group and its connected persons, and will be required to comply with chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders' approval requirements of those rules;
- (vi) the Company has appointed Somerley as the compliance advisor, which will provide advice and guidance to the Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls; and
- (vii) the Controlling Shareholders will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-competition for inclusion in the annual report of the Company.

### INDEPENDENCE FROM THE GROUP'S CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective Associates after the Share Offer:

#### **Management independence**

The Board consists of eight Directors, comprising five executive Directors and three independent non-executive Directors. One of the executive Directors is a Controlling Shareholder.

Each of the Directors is fully aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefit and in the Shareholders' best interests and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interests arising out of any transaction to be entered into between the Company and the Directors or their respective Associates, the interested Director(s) will abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum.

#### **Operational independence**

The organisational structure of the Group is made of various departments and divisions, each with specific areas of responsibility. The Group has also established a set of internal control policy to facilitate the effective operation of its businesses.

During the Track Record Period, the Group has entered into certain tenancy agreements with connected persons of the Group and under the terms of which, the Group will continue to lease the premises as stated in the tenancy agreements. Details of such tenancy agreements are set out in the section headed "Connected Transactions — Tenancy Agreements" of this prospectus.

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The Directors confirmed that during the Track Record Period, the management practice of the Group was to use certain related and unlicensed companies to sign contracts (mainly relating to administrative and management services contracts) on behalf of the Group which provide centralised control base and better control solutions. The Group could therefore focus on its main businesses and operations with the administrative support by these related companies. Furthermore, such arrangement may reduce the legal risk against the Group. The Directors confirmed that all such contracts were either terminated or transferred to the Group before Listing, and there was no non-compliance or unrecorded liabilities arising from such contracts during the Track Record Period and up to the Latest Practicable Date.

The Directors are of the opinion that the tenancy agreements as described above have been and will be conducted, and carried out, in the ordinary course of business of the Group as well as on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Group is not operationally dependent on the Controlling Shareholders.

### **Financial independence**

The Group has an independent accounting system and makes financial decisions according to its own business needs. During the Track Record Period, Bright Smart Securities (as the borrower) had entered into eight subordinated loan agreements with Manet Good (as the lender), pursuant to which Manet Good agreed to grant revolving credit facilities to Bright Smart Securities. Each of the loans was unsecured and borne no interests.

As the Group's IPO financing business depends on the then market condition and demand of IPO financing by its clients, from time to time, it would be desirable for the Group to obtain capital on a temporary basis to increase its liquid capital and thereby the capability of the Group to obtain further bank financing in order to provide IPO financing to its clients. For the purpose of satisfying the liquid capital requirement under the FRR, it can be either a direct injection of share capital, or the use of a subordinated loan on a temporary basis and in a form agreed by the SFC to be treated as part of the capital base (with features such as last right of repayment). As the support for the Group's IPO financing business is only required on a temporary basis, the Directors are of the view that it is not preferable to have a direct injection of share capital which is permanent in nature and requires cumbersome steps in reducing capital of a company. The Directors confirmed that the entering of the eight subordinated loan arrangements during the Track Record Period were to support the liquid capital for Bright Smart Securities for the purpose of increasing the IPO financings to its clients, and were not requested by the SFC due to Bright Smart Securities failing to meet the FRR requirements.

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Set out below is the movement of subordinated loans from Manet Good to the Group for each of the three years ended 31 March 2008, 2009 and 2010:

|   | For the year ended 31 March |            |             |
|---|-----------------------------|------------|-------------|
|   | 2008                        | 2009       | 2010        |
|   | (HK\$'000)                  | (HK\$'000) | (HK\$'000)  |
| Balance as at the beginning of the year . . . . . | 100,000                     | —          | —           |
| Drawdown during the year . . . . .                | 428,000                     | —          | 1,355,000   |
| Repayment during the year . . . . .               | (528,000)                   | —          | (1,355,000) |
| Balance as at the end of the year . . . . .       | —                           | —          | —           |

For each of the three years ended 31 March 2008, 2009 and 2010, the maximum drawdown from the eight subordinated loans were approximately HK\$190 million, HK\$Nil and HK\$300 million respectively. There was no subordinated loan outstanding as at 31 March 2008, 2009 and 2010. The Directors confirmed that all subordinated loans will be terminated upon Listing. On the other hand, approximately HK\$177 million of the net proceeds from the Share Offer, assuming the Over-allotment Option is not exercised and based on the low-end of the indicative Offer Price range per Offer Share, will be injected as capital to Bright Smart Securities after Listing. Please refer to the section headed “Future plans and use of proceeds” for details. Please also refer to the section headed “Financial Information — Subsequent events in relation to the subordinated loans from Manet Good” for the outstanding subordinated loan as at the Latest Practicable Date.

For the purpose of illustrating the effect of uplifting the subordinated loans from Manet Good to the Group, set out below are the financial information during the Track Record Period in relation to (i) amount of IPO financing extended to the Group’s clients; (ii) the Group’s interest income from such IPO financing; (iii) the Group’s IPO net income (see Note 1); and (iv) effect of uplifting the subordinated loans on the Group’s profit before taxation, assuming HK\$177 million from the Share Offer was injected as capital to Bright Smart Securities:

|   | For the year ended 31 March |       |          |
|---|-----------------------------|-------|----------|
|   | 2008                        | 2009  | 2010     |
|   | (in HK\$ million)           |       |          |
| Amount of IPO financing extended to clients during the year . . . . .   | 53,053.7                    | 274.9 | 44,724.0 |
| Interest income from such IPO financing . . . . .   | 56.0                        | 0.2   | 10.1     |
| IPO net income <sup>(Note 1)</sup> . . . . .  | 9.6                         | 0.3   | 12.6     |
| Number of IPOs during the year that the Group had extended financing to its clients . . . . .   | 39                          | 4     | 62       |
| Effect of uplifting subordinated loan on the Group’s profit before taxation, assuming HK\$177 million from the Share Offer was injected as capital to Bright Smart Securities . . . . . | 0.3                         | 0.0   | 2.3      |
| Number of IPOs during the year that the Group had extended financing to its clients and the IPO net income of which was affected by the drawdown of subordinated loans . . . . .        | 5                           | 0     | 12       |

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*Notes:*

1. IPO net income refers to net brokerage commission and net interest income after deduction of direct costs including handling fee and interest expense paid.

As shown in the table above, on the basis that, the subordinated loans were uplifted and HK\$177 million of the net proceeds from the Share Offer was injected as capital to Bright Smart Securities throughout the Track Record Period, effect on the Group's profit before taxation would be approximately HK\$0.3 million, HK\$Nil and HK\$2.3 million for each of the three years ended 31 March 2008, 2009 and 2010, representing approximately 0.4%, 0% and 3.2% respectively of the profit before taxation of the Group. The financial impact of the subordinated loan on the Group is thus considered by the Directors to be not material.

Based on the discussion between the Group and its bankers, the Directors are of the view that it would not be practicable for the bankers to agree on the conditions as stipulated under the model subordinated loan agreement provided by the SFC as to provision of subordinated loan facilities to the Group because of the onerous obligations imposed on the bankers. Furthermore, this is the commercial decision of the respective bankers and not due to the financial position of the Group. Given the above and the obligation of the Company to fulfill the Stock Exchange's requirement in connection with the Group's financial independence from the Controlling Shareholders, the Directors are of the view that the proposed uplifting of the subordinated loan facilities, together with the abovementioned capital injection of HK\$177 million for the businesses of Bright Smart Securities which include its IPO financing business, is the best alternative for the Company.

Without taking into account the requirement for the Group's additional IPO financing business via the use of subordinated loan, the Directors are of the view that the Group is able to obtain sufficient level of banking facilities without the support from its Controlling Shareholders. As at 31 March 2010 and 30 June 2010, out of the total banking facilities of HK\$1,016.0 million and HK\$1,623.1 million respectively available to the Group, HK\$575.0 million and HK\$826.0 million respectively were unutilised, which demonstrated that the Group is able to obtain sufficient independent financing from banks.

Mr. Yip had also provided personal guarantees in favour of a bank to secure the Group's banking facilities. By a letter dated 9 April 2010, the bank agreed to release the personal guarantees provided by Mr. Yip and replace such personal guarantees by a corporate guarantee provided by the Company after the Listing. Details of the personal guarantees are set out in note 25(c)(vii) of the Accountants' Report set out in Appendix I to this prospectus. Save as disclosed above, the Directors confirmed that, as of the Latest Practicable Date, the Group did not have any outstanding loans due to or from the Controlling Shareholders, or guarantees or assurances have been provided by the Controlling Shareholders for the benefit of the Group. Therefore, the Group is not financially dependent on the Controlling Shareholders.