
INDUSTRY OVERVIEW

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The Company makes no representation to the accuracy of this information. Accordingly the information contained in this section should not be unduly relied upon.

THE INTEGRATED PROFESSIONAL SERVICES INDUSTRY IN HONG KONG

The Group provides integrated professional services to public and private companies and individual investors mainly in Hong Kong and the PRC, which services are broadly categorised into two segments, i.e. asset advisory services and asset appraisal, and corporate services and consultancy. The Directors believe that although there are professional service firms in Hong Kong which provide multi-professional services, the scope of services provided varies from firm to firm. For example, there are both local and international firms that provide integrated services in the real estate sector such as real estate agency in buy and sell, property management, leasing administration and valuation on real estate. However, there is no consolidated industry for integrated professional services as such. In view of the foregoing, industry overview on the Group's businesses will be discussed in terms of each professional service which the Group is engaged in.

THE ASSET APPRAISAL INDUSTRY IN HONG KONG

The Hong Kong economy, for the past number of decades, is heavily dependent on the real estate market and its development. Even now when Hong Kong has already been widely recognised as one of the most established and advanced financial market in the world, the real estate sector continues to be the backbone of the Hong Kong economy.

Today, many of the largest listed companies on the Stock Exchange, in terms of market capitalization, are companies engaged in real estate development. Under the Listing Rules, the GEM Listing Rules and Schedule 3 to the Companies Ordinance, companies wishing to have their shares listed on the Main Board or GEM must have their interests in properties valued by independent valuers, which in turn aided the development of the asset appraisal industry relating to real estate valuation.

On another front, large scale corporate and accounting scandals in the likes of Enron Corporation, Tyco International Ltd., Global Crossing Limited and WorldCom, resulted in changes in accounting rules which are now placing more emphasis on fair value accounting. Moreover, the recent subprime financial crisis and the collapse of financial institutions, such as Lehman Brothers Holding Inc., have further highlighted the importance and necessity of fair value, with an effort to prevent history from repeating itself.

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Due to corporate scandals and the public demand for more transparent and accurate financial information, accounting standards are amended, and HKFRS is gradually inclined to adopt fair value approach instead of historical cost approach for better reflection of current economic value of a business's assets and liabilities. The changes in the Listing Rules and the GEM Listing Rules have resulted in more stringent requirements for companies listed in Hong Kong, requiring valuation to be carried out by independent third party valuers under certain circumstances, for example when conducting transactions which fall under Chapter 14 of the Listing Rules or Chapter 19 of the GEM Listing Rules. The accounting requirements for reporting in fair value and changes in the Listing Rules and the GEM Listing Rules have led to new business opportunities in the valuation industry, which historically has been dominated by appraisal of fixed assets performed by professional surveyors, resulting in valuation services for business, intangible assets and financial instruments enjoying a robust growth over the last few years.

Under the Listing Rules, surveyors who perform fixed asset appraisals in Hong Kong must be members of the General Practice Division of the HKIS or The Royal Institution of Chartered Surveyors and valuers conducting valuation for Mineral Companies (as defined in the Listing Rules) must be professionally qualified and be a member of a relevant recognised professional organization. For business and intangible assets valuation, other than The Hong Kong Business Valuation Forum whose objective is to provide guidance for valuation services carried out by their members, the industry is currently not governed by any professional bodies nor uniform standards, and there is currently no requirement stipulating a person carrying out business and intangible assets valuation under the HKFRS, the Listing Rules or the GEM Listing Rules must be a member with any specific professional valuation bodies. However, valuers who provide business and intangible assets valuation services in Hong Kong generally possess one or more of the following professional credentials, including Certified Valuation Analyst, Accredited in Business Valuation of the American Institute of Certified Public Accountants, Certified Business Appraiser, and Accredited Senior Appraiser.

According to the information obtained from the HKIS, there were 72 surveying and valuation firms in Hong Kong as at 30 November 2010. These firms vary in size and the valuation services offered ranging from real estate valuation, business valuation, plant and machinery valuation to infrastructure valuation. As at 30 November 2010, there were 138 Registered Business Valuers approved by The Hong Kong Business Valuation Forum ("HKBVF"). Since there are no uniform standards in Hong Kong to regulate the business valuation practitioners, HKBVF is formed under a memorandum of understanding signed by the HKIS, the Hong Kong Society of Financial Analysts and the Royal Institution of Chartered Surveyors, with a view to provide guidance for the business valuation services conducted by the members of the HKBVF. The HKBVF established a minimum professional competence requirements for its admission of Registered Business Valuers, being a current member of either the HKIS, the Hong Kong Society of Financial Analysts or the Royal Institution of Chartered Surveyors with a minimum of 5 years working experience of which a minimum of 3 years in the field of business valuation. However, except Chapter 5 of the Listing Rules, Chapter 8 of the GEM Listing Rules and the Code on Real Estate Investment Trusts issued by the SFC which require the valuer conducting property valuation should possess membership with The HKIS or The Royal Institution of

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Chartered Surveyors (Hong Kong Branch), and Chapter 18 of the Listing Rules which requires valuers conducting valuation for Mineral Companies (as defined in the Listing Rules) must be professionally qualified and be a member of a relevant recognised professional organization, there is a lacking in provisions in the HKFRS, the Listing Rules and the GEM Listing Rules which relate to required qualification for performing business valuation services to Hong Kong listed companies. Therefore, there is no requirement that business valuation shall be conducted by the Registered Business Valuers, and accordingly, individuals who are not Registered Business Valuers and firms which are not valuation firms or do not have staff who are Registered Business Valuers may also provide valuation services, in particular valuation on business and intangible assets.

The entry barrier for the asset appraisal business is therefore low and the industry is therefore highly fragmented and unstructured. The Directors are also of the view that the asset appraisal industry may continue to evolve as and when there are changes to the HKFRS, the Listing Rules and the GEM Listing Rules.

ASSET ADVISORY SERVICES INDUSTRY IN HONG KONG AND THE PRC

The Group's asset advisory services mainly involve identifying potential investment or investor, undertaking due diligence and evaluation on the underlying assets and provisions of procedural and strategic advice in relation to the client entering into an investment or realizing an investment in Hong Kong or in the PRC. Again, the market in this industry is fragmented and unstructured, as there is no specific requirement on the licence, certificate or professional credential which the service provider shall possess for provision of such asset advisory services. Therefore, many other service providers such as investment banking firms, management consulting firms and accounting firms, both local and international, also provide services similar to the Group's asset advisory services.

As the Group's asset advisory services mainly involves investment in Hong Kong and in the PRC, the demand for such services will be driven by the M&A market in Hong Kong and the PRC.

The M&A markets in Hong Kong and in the PRC

According to the statistics available from Bloomberg, the M&A market in Hong Kong has been growing robustly since 2001, peaked in 2007 in terms of deal value, retracted significantly in 2008 due to the global financial crisis, but have picked up again at where they left off in 2009. The Asia Pacific M&A Bulletin for the years 2008, 2009 and the mid year 2010 indicated that the deal volume for the Hong Kong M&A market decreased by approximately 35.71% from approximately 420 for the year 2007 to approximately 270 for the year 2008. On the other hand, the deal value decreased from approximately US\$25,000 million to approximately US\$12,300 million for the same period, which indicates a significant retract in deal value of approximately 50.8% due to global financial crisis. Then, there is an increase in deal volume by approximately 22.22% when the deal volume for 2009 increased to approximately 330 whereas the deal value for the year 2009 increased to US\$20,000 million, which is an increase of approximately 62.60%. Up to the first half of 2010, the deal volume reached 356 and the deal value is approximately US\$20,689 million which indicated an upward trend in the M&A market in Hong Kong in 2010.

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With respect to the M&A market in the PRC, the deal volume decreased by approximately 2.22% from approximately 900 for the year 2007 to approximately 880 for the year 2008, and there is also a decrease in deal value by approximately 31.82% from approximately US\$44,000 million for the year 2007 to approximately US\$30,000 million for the year 2008. In 2009, the deal value increased slightly by approximately 5.68% to approximately 930, and the deal volume also increased by approximately 6.67% to approximately US\$32,000 million. The deal volume and the deal size in the first half of 2010 were approximately 1,498 and approximately US\$50,582 million respectively, showing that the M&A market in the PRC is also picking up during the year 2010.

It can be seen from the above statistics that although the M&A market in both Hong Kong and the PRC has recovered from its trough in 2008, it has not yet reached the peak figures in 2007. Coupled with quantitative easing, it is expected that there will continue to be robust growth in the M&A market in both Hong Kong and the PRC, which provides room for the expansion and growth of the Group's asset advisory services.

Property market in the PRC

According to the statistics obtained from the National Bureau of Statistics of China, the real estate sector is a significant component of foreign direct investment into the PRC. Accordingly, the trend of the PRC property market will have an impact on the Group's asset advisory services.

In 2010, the PRC government introduced various policies to stabilise the rapid growth in the real estate sector. In March 2010, the Ministry of Land and Resource of the People's Republic of China issued 關於加強房地產用地供應和監管有關問題的通知 (Notice on Several Issues concerning the Reinforcement on Provision and Supervision over the Land Use for Property Development) which shortens the time for payment of the land price by successful bidder of government land. In April 2010, the State Council issued 國務院關於堅決遏制部分城市房價過快上漲的通知 (Notice of Firmly Restraining the Excessive Price Hikes of Real Property in Certain Cities) to raise mortgage rates on second homes to 1.1 times the central bank's benchmark lending rate, up from the then current 80%. In September 2010, Chinese local banks in the PRC were also asked not to approve loans for third home purchases and to those who fails to provide proof of at least one year of local social security contributions or tax payments. The People's Bank of China announced on 19 October 2010 to increase the one-year benchmark lending rate by 27 basis points to 5.58%, effective on 20 October 2010. On 25 December 2010, the People's Bank of China announced that the one-year benchmark lending rate be further increased by 0.25%, increasing the lending rate for loan over five years from 6.14% to 6.40%, effective on 26 December 2010.

Notwithstanding the policies introduced to curb the real estate market, according to the statistics obtained from The National Bureau of Statistics of China, the total investment in real estate development in the PRC from January to December 2010 amounted to approximately RMB4,826.7 billion, which has increased by approximately 33.2% as compared to the total investment in real estate development in the PRC of approximately RMB3,623.2 billion for the same period in 2009. These investment amounts included investment in residential property, commercial property as well as office premises.

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As the PRC property market maintains a steady growth trend in 2010 despite the said policies introduced to curb the real estate market, it remains to be seen whether the PRC Central or other local governments will introduce further measures to quiet down the market. Nevertheless, the Directors remain positive that the real estate industry will continue to grow in 2011. Furthermore, as most of the policies for curtailing the property market are targeted at residential properties while the Group's asset advisory services mainly relate to commercial properties, the Directors are of the view that these measures would not have any significant adverse impact on the asset advisory services business of the Group.

MANAGEMENT CONSULTING INDUSTRY IN HONG KONG

As one of the world's leading financial markets, many internationally renowned consulting firms establish their presence in Hong Kong, and being arguably the largest international market in the Greater China Region also consolidates Hong Kong's status as one of the premier management consulting markets worldwide. Furthermore, pursuant to the CEPA Agreement, Hong Kong service suppliers may establish wholly-owned management consulting operations with a minimum registered capital of RMB30,000 in the PRC. Allowance of the entering into the PRC market has paved way for further growth prospect to the Hong Kong management consulting industry. As of 31 August 2010, 31 management consulting companies have obtained Hong Kong service suppliers certificates out of 39 applications.

According to the research conducted by Hong Kong Trade Development Council, as of December 2009, there are 4,480 consulting companies in Hong Kong. These companies provide a wide range of services and can be broadly classified into six general sectors:

1. General management — including corporate and business strategy, business process re-engineering and change management;
2. Financial management — including analysis of capital investment proposal, development of accounting and budgetary control system and business valuations;
3. Marketing management — including formulation of marketing strategy and customer service and pricing policies;
4. Production management — including logistic study, supply chain, material requirement planning, manufacturing resource planning and just-in-time production;
5. Human resources management — including actuarial, salary survey, job evaluation and pay scale assessment, performance management and training; and
6. Information technology management — strategic study and systems development (excluding technical or programming aspects in hardware and software development).

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In addition, amongst the consulting firms in Hong Kong the majority of them are local, small to medium-sized general management consulting firms, which are generally established by former consultants of international consulting firms or former senior executives of multinational corporations.

GENERAL

Overall, the multi-professional services industry is highly fragmented and unstructured. It can be seen that the competition faced by the Group is severe since it is competing with numerous firms with different sizes and scopes of service. The Group therefore has formulated certain business strategies in accordance with its competitive strengths with a view to differentiate itself from the competitors in this unstructured industry as set out in the section headed “Statement of business objectives” and the section headed “Business”.