
FUTURE PLANS

FUTURE PLANS AND PROSPECTS

The Group has been established as an active player in the retail securities and futures brokerage market segment in Hong Kong with its earnings derived mainly from the provision of brokerage service for securities listed on the Stock Exchange and futures contracts traded in the Futures Exchange as well as its financing business. The success of the Group is attributable to the quality services provided to its clients by the professional staff members of the Group and the support of the loyal clients who have been with the Group since its establishment. The Group will continue to leverage on its competitive edge in the retail segment to further enlarge its client base. The Group intends to expand its sales and marketing team by recruiting professional sales personnel from the market as well as providing comprehensive professional training program to fresh graduates who are ambitious to pursue their career in the financial market. The Group will also continue to seek suitable locations and recruit quality branch managers to expand the Group's branch network.

The Group is one of the active players among local securities firms which provide margin financing to clients for subscription for IPOs as well as trading securities in the secondary market. The Securities and Futures (Financial Resources) (Amendment) Rules 2006 (the "New FRR Rules") gazetted on 15 May 2006 came into operation on 1 October 2006. This New FRR Amendments impose a higher haircut percentage to non-index constituent stocks to those securities firms that repledge clients' collateral to banks. In addition, securities firms, whether repledging client's collateral or not, will be subject to 100% haircut percentage for warrants. As a result, securities firms which provide margin financing to clients may be required to put up more capital to support the margin financing business. The Group sees the impact of the New FRR Amendments in two folds. On one hand, the Group may require more capital to conduct its margin financing business. On the other hand, the Group sees this as a business opportunity to expand the margin financing business. The Group may capture those clients who drop out from other smaller securities firms which, with a weaker financial support, cannot maintain the same level of business under the New FRR Rules.

The Cash Market Transaction Survey 2005/06 published by the HKEC shows that institutional investors (including both local and overseas) contributed approximately 59.57%, 65.24% and 67.97% respectively to the total market trading value of all agency trading for each of the three years ended 30 September 2004, 2005 and 2006 respectively. This reinforces the Group's long term plan to develop the institutional sales segment. The Group intends to build up a professional institutional sales team and further develop its research team to provide institutional investors with quality sales services and research reports.

On the futures brokerage business, clients of the Group have long been focusing on the financial futures products which are the only futures products traded on the Futures Exchange. The significant rise in the price of oil, gold and other precious metals in the past couple of years had attracted investors' interests in the commodities futures market. In response to the changing market sentiment, a team of professional commodities sales personnel and alliance with overseas commodities brokers have been set up by the Group to cover the new investment need of the clients. The Group expects that the commodities market will continue to be one of the focuses of the world economy in the years to come and will be giving full support, in terms of management and financial resources, to build up this emerging business segment of the Group.

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In terms of the prospect of the Group's business, the Company expects its business will continue to grow as a result of the Hong Kong Government's determination to boost the development of the financial services market in Hong Kong to enhance Hong Kong's position as an international financial center as well as the close economic relationship between Hong Kong and the PRC. Since the PRC economy has been developing rapidly, the demand of the PRC enterprises for capital raising and other financial services keeps increasing. As such, the close economic relationship between Hong Kong and the PRC will definitely benefit the securities industry in Hong Kong and hence the Group's business.

Hong Kong stock market was the 6th largest in the world and the 2nd largest in Asia in terms of market capitalisation as at the end of December 2006¹. In terms of initial public offering fund raised in 2006, Hong Kong ranked 2nd in the World. A wide variety of products are traded in the Hong Kong stock market, ranging from ordinary shares to options, warrants, Real Estate Investment Trusts (REITs) and debt securities. Hong Kong is therefore an obvious platform for funds from the PRC in view of the wide range of investment products traded in Hong Kong.

As at the end of December 2006, 1,173 companies were listed on the Main Board and the GEM Board of the Stock Exchange, with a market capitalisation of HK\$13,338 billion. Among them, 367 were PRC enterprises, the market capitalisation of which amounted to about 50.3% of the aggregate market capitalisation of all shares listed on the Stock Exchange. Hong Kong offers a choice for the PRC enterprises to get listed and raise funds.

The securities industry in Hong Kong remained buoyant in the second half of 2006 with market capitalisation and market turnover reached record high. After rising 13.8% in the last quarter of 2006, as compared to the third quarter of 2006, the HSI rose to 20,002 in December 2006. The market capitalisation also exceeded HK\$13,000 billion in December 2006 and the average Stock Exchange daily turnover was sharply boosted by 85% to HK\$33.9 billion in 2006 from approximately HK\$18.3 billion in 2005. Initial public offerings in Hong Kong continued to be active during the last quarter of 2006 with 24 initial public offerings on the Main Board and 1 on GEM, compared with 10 on the Main Board and 1 on GEM during the third quarter of 2006. The total amount of equity funds raised through initial public offerings was HK\$195 billion during the last quarter of 2006, compared with HK\$32.6 billion during the third quarter of 2006. The Company expects that the securities industry in Hong Kong will continue to grow, thereby benefiting the Group's business.

Note:

¹ Market capitalisation of the World's Top Stock Exchanges published at SFC's website.

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USE OF PROCEEDS OF THE SHARE OFFER

The net proceeds of the Share Offer, after deduction of expenses, are estimated to amount to approximately HK\$111 million (calculated based on the Offer Price of HK\$0.38). In view of the potential growth of the Group's business as mentioned in the section headed "Future plans and prospects" above, a stronger capital base and working capital position is required to support the ongoing growth of the Group's businesses. The Directors intend to apply the net proceeds as follows:–

- as to approximately HK\$104 million to fund and develop its ordinary businesses, which may include placing and underwriting activities as well as the margin and initial public offer financing businesses;
- as to approximately HK\$5 million for opening new branches, upgrading the Group's computer system, recruiting qualified personnel to expand its sales team to serve the retail and institutional stock brokerage business as well as expanding its research team and advertising; and
- as to the balance of approximately HK\$2 million as general working capital of the Group.

To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with licensed financial institutions in Hong Kong.