THE STOCK MARKET IN HONG KONG

The trading of securities in Hong Kong is believed to have started during the mid-19th century. However, the first formal market, the Association of Stockbrokers in Hong Kong, was not established until 1891. In 1914, the Association of Stockbrokers was re-named the Hong Kong Stock Exchange.

In 1921, a second exchange, the Hong Kong Stockbrokers' Association was incorporated, and the two exchanges merged to form the Hong Kong Stock Exchange in 1947, which re-established Hong Kong's stock market after the Second World War. Rapid growth of the Hong Kong economy led to the establishment of three other exchanges – the Far East Exchange in 1969; the Kam Ngan Stock Exchange in 1971; and the Kowloon Stock Exchange in 1972.

Pressure to strengthen market regulation and to unify the four exchanges led to the incorporation of The Stock Exchange of Hong Kong Limited in 1980. On 27 March 1986, the said four exchanges ceased business; and the new exchange commenced trading through a computer-assisted system on 2 April 1986. In the 1990's, the total market capitalisation of companies listed on the Main Board increased substantially due to the increased number of local and PRC company listings in Hong Kong, significant additional fund raising by existing listed companies, and the general increase in stock prices.

From 14 September 1999, HKEx accepted listing applications from potential issuers wishing to list on GEM.

On 6 March 2000, the Stock Exchange and the Futures Exchange demutualised and together with Hong Kong Securities Clearing Company Limited, merged under a single holding company, Hong Kong Exchanges and Clearing Limited or "HKEx". HKEx listed its shares by introduction on the Main Board on 27 June 2000.

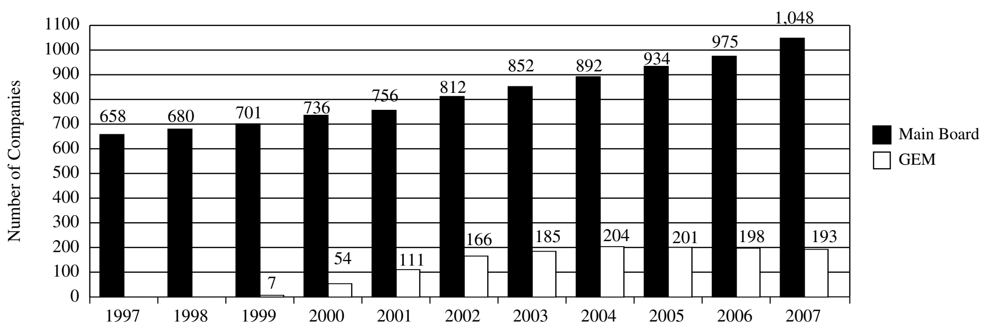
Prior to the completion of the exchange merger in March 2000, the Stock Exchange had 570 participant organisations. As at 31 December 2007, the Stock Exchange had a total of 477 participant organisations.

As at the end of December 2007, the Stock Exchange was among the leading stock exchanges in the world and ranked the seventh largest territorial stock market in the world in terms of market capitalisation of the companies listed on both the Main Board and GEM and the third largest stock market in Asia. As at the end of December 2007, the total market capitalisation of companies listed on the Main Board and GEM was approximately HK$20,536 billion and HK$161 billion respectively.

Between 1997 and 2007, the number of companies having shares listed has increased from 658 listed companies on the Main Board to 1,048 listed companies in 2007, while the total market capitalisation on the Main Board of the Stock Exchange has increased by more than triple to approximately HK$20,536 billion as at 31 December 2007.

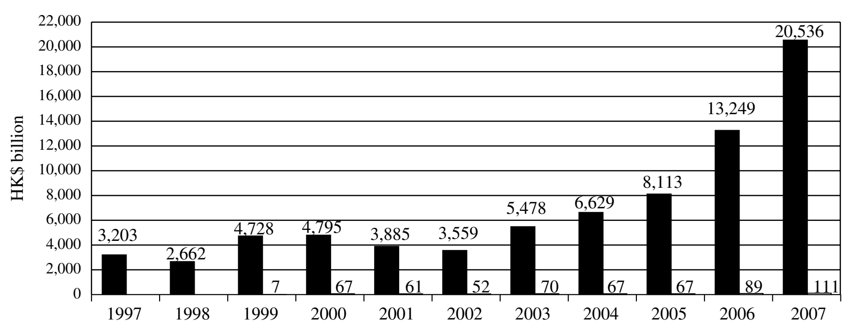
Between 1999 and 2007, the number of companies having shares listed has increased from 7 listed company on GEM to 193 listed companies in 2007.

Number of companies with shares listed on the Main Board and GEM as at 31 December 1997-2007



Source: HKEx

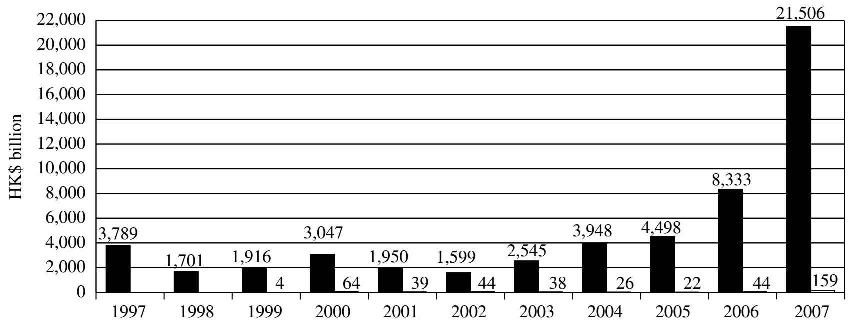
Total market capitalisation of the Main Board and GEM listed companies as at 31 December 1997-2007



Source: HKEx

Set out below is the summary of the total annual trading volume of the shares in terms of monetary amount listed on the Main Board and GEM, measured by dollar value, between 1997 and 2007.

Total annual trading volume of the shares in terms of monetary amount listed on the Main Board and GEM between 1997-2007

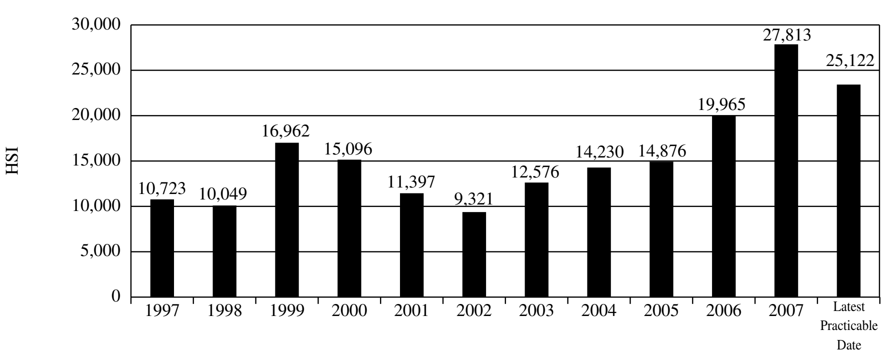


Source: HKEx

The annual trading volume of shares in terms of monetary amount reached its historical high level in 1997. Because of the Asia financial crises, it commenced to drop but gradually recovered until 2000 with increase in market activities associated with internet based stock. After then, the fallout of internet bubbles in early 2000 and weaker economy in Hong Kong let the fall in today which was exacerbated by the Severe Acute Respiratory Syndrom ("SARS") outbreak in early 2003, since then the market enjoyed a prolonged period of growth, and such growth is greatly attributable to the strong growth in economies in Hong Kong and the PRC and kept significant growth because of the strong PRC market.

Set out below is the summary of HSI as at the last trading date for each of the years from 1997 to 2007 and as at the Latest Practicable Date:

HSI as at last trading date for each of the years from 1997 to 2007 and the Latest Practicable Date



Source: Bloomberg

During the years from 1997 to 2007, HSI increased from 10,723 as at 31 December 1997 to 27,813 as at 31 December 2007 and further decreased by 6,055 points to 21,758 as at 22 January 2008 and was then increased by 3,364 points back to 25,122 as at the Latest Practicable Date.

Securities products on the Stock Exchange

Listed securities on the Main Board include equity securities, warrants, debt securities, unit trusts and mutual funds. The first derivative warrant was admitted for listing in Hong Kong in February 1988. Regulated short selling was introduced in January 1994 to enable more flexible portfolio investment by investors. In September 1995, stock options were introduced. In November 1999, GEM was established, in order to provide fund-raising opportunities for growth companies of all sizes from all industries, and to promote the development of technology industries in the region.

The Stock Exchange's mission is to promote capital formation in Hong Kong and the PRC, and in July 1993, the first PRC incorporated enterprise was listed in Hong Kong. As at 31 December 2007, there were 193 PRC related enterprises listed on the the Main Board. The number is expected to increase as more and more PRC companies seek to raise foreign capital for growth.

HSI

There are a number of indices launched that track the performance of companies whose shares are listed on the Stock Exchange. Of these the most frequently cited is the HSI. The HSI is compiled and managed by HSI Services Limited, a private company wholly-owned by Hang Seng Bank. Since its inception in November 1969, HSI has been the most widely quoted index of the Hong Kong stock market, both locally and internationally. It is a market-value-weighted index in which the contribution of each constituent stock to the index is weighted against the total market value of all constituent stocks in the HSI. As at the Latest Practicable Date, the HSI has 43 constituent stocks, comprising companies in the financial sector, utility sector, property sector, and commercial and industrial sectors.

Stock Exchange Participants

In order to trade on or through the facilities of the Stock Exchange, it is necessary to be a Stock Exchange Participant. Authorisation under the Stock Exchange's rules as a Stock Exchange Participant requires, among other things, the person to be a limited company incorporated in Hong Kong or an individual ordinarily resident in Hong Kong, to meet certain liquid capital requirements, to have (or, in the case of corporate participants, to have a director who has) passed certain examinations, to have (or, in the case of corporate participants, to have a director who has) the requisite experience and to be of good financial standing.

As at 31 December 2007, there were a total of 477 Stock Exchange Participants.

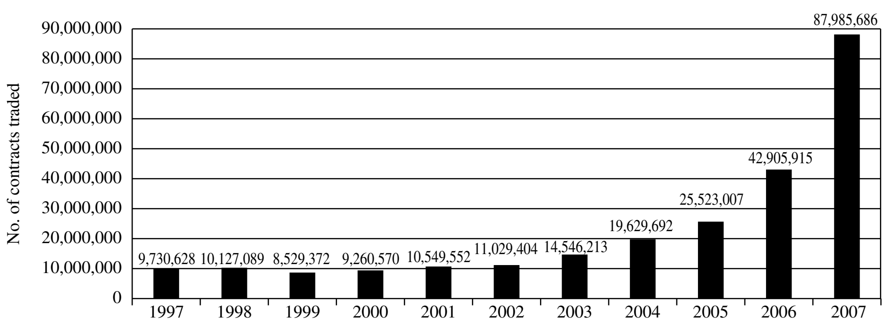
THE FUTURES MARKET IN HONG KONG

Futures and options trading in Hong Kong over the last 15 years has grown in tandem with the growth of the territory's securities market. In 1976, the Futures Exchange was established and was licensed by the Government of Hong Kong as the exchange company to establish and operate the commodity exchange in Hong Kong under the Commodities Trading Ordinance (Chapter 250 of the Laws of Hong Kong).

On 6 March 2000, the Stock Exchange and the Futures Exchange demutualised and together with HKSCC, merged under a single holding company, namely HKEx.

The Futures Exchange provides efficient and diversified markets for the trading of futures and option contracts by its more than 135 exchange participant organisations as at 31 December 2006, including many that are affiliated with international financial institutions. The Futures Exchange provides a spectrum of financial products including equity index, equity derivatives, and interest rate derivatives. The total annual futures contracts and option contracts traded in Hong Kong have grown from approximately 5.6 million contracts in 1995 to approximately 87.99 million contracts in 2007.

Total futures and option contracts traded on the Futures Exchange between the years 1997-2007



Source: HKEx

On 5 June 2000, the Futures Exchange switched to the HKATS from the open outcry trading method to enhance capacity and functionality. The HKATS is an upgraded version and a new electronic screen-based trading system through which investors can have direct access to comprehensive price information on a real time basis. Moreover, buy/sell orders of investors are matched automatically on a price/time basis. Upon the establishment of an account with the Futures Exchange, an individual investor can conduct trades via the HKATS workstations located at the premises of a Futures Exchange Participant.

THE STOCK BROKING INDUSTRY IN HONG KONG

Stock Exchange Participants can be classified into groups A (the 14 largest firms, based on their share of market turnover), B (those firms ranked 15th to 65th in terms of their share of market turnover), and C (the rest of the stockbrokers in the market). The main business of group A firms is institutional trading, serving predominantly large overseas institutional clients. The business of the group B firms consists of a mixture of both overseas and local institutional trading and retail trading. The group C firms have historically captured a majority of the retail trading in Hong Kong, but are gradually being squeezed out of the market by large banks from group A, which have aggressively entered into the mass market, as well as group B firms who have sufficient scale to offer more comprehensive and sophisticated service platforms than the traditional group C brokers. The Group's brokerage business is categorised as a group B broker by the Stock Exchange, serving both institutional and retail clients.

DEVELOPMENT OF TRADING INFRASTRUCTURE AND SETTLEMENT IN HONG KONG

Trading system

Prior to November 1993, trading on the Stock Exchange was conducted manually, either through the Stock Exchange's internal telephone system or via the "open outcry" system where Stock Exchange Participants negotiated face-to-face on the trading floor of the Stock Exchange. In order to handle the increasing volume of business, the Stock Exchange commissioned the AMS system, in order to support both manual and fully automated trading. All securities listed on the Stock Exchange are now traded by automatching through AMS.

AMS/3

The Stock Exchange's electronic trading platform currently uses AMS/3, which was launched by the Stock Exchange in 2000 to replace AMS/2. AMS/3 has extensive capabilities in various areas, including market model, trading methods, market access and trading facilities, and investor access channels.

AMS/3 uses automatching as its core mode for trading. In addition AMS/3 also features new methods such as single price auction and quote-based market-making. Other new order types, such as enhanced limit order and special limit order have been introduced to support different investors' needs.

Under AMS/3, there are two approaches to trading – Terminal Approach and Gateway Approach:

- With the Terminal Approach, trading is conducted through an AMS/3 Trading Terminal that is similar to the previous on-floor and off-floor AMS/2 terminals of the Stock Exchanges in terms of operation and functionality. In other words, trading can be conducted via input terminals located on the Stock Exchange's trading floor, or via off-floor terminals installed at Stock Exchange Participants' offices with a maximum of two off-floor terminals per Stock Exchange seat held.

- With the Gateway Approach, brokers can obtain market accessibility using an Open Gateway ("OG") device. To perform trading functions, brokers need to connect their trading facility to the OG device. Brokers can connect OG to a Stock Exchange Participant's Broker Supplied System ("BSS"), i.e. an in-house developed system or third party software package developed by commercial vendors. With this setup, brokers can then make use of their BSS to provide online trading services to investors.

AMS/3 trading terminals allow for securities trading in Hong Kong only.

Finally, AMS/3 provides invest or access channels, including the Internet or mobile phones for investors to submit trading requests. An Order Routing System ("ORS") developed by the Stock Exchange links AMS/3 access channels to brokers' OGs. The connection enables two-way electronic data transfer and allows brokers to offer new types of services to their clients.

Settlement

CCASS, a computerised book-entry clearing and settlement system for transactions executed on the Stock Exchange, was introduced in 1992. It accepts share certificates from its participants and immobilizes them in the CCASS depository while at the same time posts electronic share credits to the stock accounts of the depositing participants. Settlement of transactions is recorded electronically by Hong Kong Clearing as net increases or decreases in participants' stock account balances, without the physical transfer of share certificates. Hong Kong Clearing also facilitates payments through the use of electronic money transfers between the participants' designated banks. Stock Exchange Participants are required to settle all their trades in CCASS eligible securities through CCASS. Operation of investor accounts in CCASS was launched in May 1998. Hong Kong Clearing currently has six categories of CCASS participants, namely, investors, brokers, clearing agencies, custodians, stock lenders and stock pledges.

THE ONLINE BROKERAGE INDUSTRY IN HONG KONG

Since 2000, the number of financial institutions and brokers offering online trading in Hong Kong has increased significantly. Many brokers now offer online services in conjunction with the traditional brokerage services. As at the end of April 2000, online securities trading offered by four brokers in Hong Kong accounted for 83% of the total online market turnover trading. Currently, most major brokers and large scale financial institutions offer some form of internet based securities trading services leading to an increase of online transactions. According to the "Retail Investor Survey 2005" conducted by the HKEx, proportion of the online investors, who had always or sometimes traded stocks via online media, among stock investors increased to 38.5% in 2005, up from 35.8% in 2004.

Since the launch of the AMS/3, the average daily turnover of the online brokers in Hong Kong has increased over the past six years the percentage of retail securities trades conducted online has risen from around 1.9% to around 13.0%. With its enhanced features and capabilities, online trade execution through AMS/3 is expected to continue to rise accordingly.

As at the Latest Practicable Date, there were no additional registration and licensing requirements for a company to conduct securities and commodities dealing through the Internet. The SFC would expect registered persons to put in place additional operational measures if they intend to conduct securities dealing, commodity and futures trading and leveraged foreign exchange trading activities over the Internet. These measures cover aspects of suitability and general conduct, order handling and execution, system integrity, responsible personnel, written procedures, client agreements, record keeping and reporting.

INVESTMENT BANKING BUSINESS

The investment banking business is a fee based business, namely negotiated fees, retainers and commissions agreed between the service provider and the corporate client. Historically, the investment banking business was characterised by long-standing personal relationships between banker and client; but as more and more players entering into the market and providing similar services, deal and product expertise and distribution power, these personal relationships have given way to corporate expediency and pricing power on the part of the service providers. The ability to remain competitive in this sector therefore depends upon an institutions economies of scale, leadership in the deal league tables, effective publicity, strong deal execution track record, the ability to provide creative and effective financial solutions ahead of competitors, as well as the ability to maintain the best origination and execution professionals whilst maintaining efficient cost structures. This applies to large institutions and small firms looking to grow their investment banking practice.

The investment banking sector within Asia is highly competitive. Its performance as a sector is largely dependent on the region's fundamental economic health, the growth of government and private listed entities, capital inflows, the stability of the political and regulatory environment, as well as the continued development of the region's capital markets. As the region's economies continue to grow, particularly markets such as the PRC, India, Hong Kong, South Korea and Japan, so will the need for investment banking services.

All major international investment banks have a presence in the region and they compete with each other to serve the region's governments and listed and unlisted corporations. Many of these financial institutions have regional head offices in Hong Kong, and many also have large offices in Japan and Australia, as well as other offices in Singapore and in the PRC.

Competition for large advisory and capital raising transactions, particularly those relating to government or state-owned enterprises privatisations or to the region's leading blue-chip companies is fierce among international corporate finance firms, as is the competition among the local firms to serve the region's smaller to medium sized corporations. Besides large government related or state-owned enterprises or blue-chip deals, many investment banks have begun focusing on finding (and or investing in) private sector companies particularly in the PRC that may one day be suitable for listing in overseas markets such as Hong Kong, Singapore, New York and London.

With regard to the PRC, on the back of the rapid economic growth over the past two decades, many companies have sought overseas listing, particularly in Hong Kong. However, many of these listings have had to do with large government or state-owned enterprises privatisations. Going forward, as the PRC private sector becomes the driving force behind the PRC's economic growth, the flow of non-government entities seeking local overseas capital will accelerate. The Directors are of the view that many of these companies may seek listings in Hong Kong, Asia's third largest capital market after Tokyo and Shanghai.

REGULATORY ENVIRONMENT

Regulatory environment for the securities and futures market in Hong Kong

The securities and futures markets in Hong Kong are overseen by the SFC. The SFC supervises the recognised exchange company, HKEx which operates the Stock Exchange, the Futures Exchange, and Hong Kong Clearing. The SFC also regulates other financial intermediaries and the representatives from these financial intermediaries, namely, licensed corporation in Hong Kong who are not necessarily members of these exchanges.

The SFC is divided into four operational divisions:

- The Corporate Finance Division is responsible for the dual filing functions in relation to listing matters, administering the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, overseeing the Stock Exchange's listing-related functions and responsibilities, and administering securities and company legislation relating to listed and unlisted companies.

- The Intermediaries and Investment Products Division is responsible for devising and administering licensing requirements for securities and futures, and leveraged foreign exchange trading intermediaries, supervising and monitoring intermediaries' conduct and financial resources, and regulating the public marketing of investment products.

- The Enforcement Division is responsible for conducting market surveillance to identify market misconduct for further investigation, undertaking inquiry into alleged breaches of relevant ordinances and codes, including insider dealing and market manipulation, and instituting disciplinary procedures for misconduct by licensed intermediaries.

- The Supervision of Markets Division is responsible for supervising and monitoring activities of the exchanges and clearing houses, encouraging development of the securities and futures markets, promoting and developing self-regulation by market bodies.

The SFC's regulatory objectives as set out in the SFO are:

- to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;

- to promote understanding by the public of the operation and functioning of the securities and futures industry;

- to provide protection for members of the public investing in or holding financial products;

- to minimise crime and misconduct in the securities and futures industry;

- to reduce systemic risks in the securities and futures industry; and

- to assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

The SFC derives its powers principally from the SFO and is as an autonomous statutory body outside the civil service. The SFO provides for the fundamental framework within which dealings in securities are conducted and regulated. Apart from SFO, the operation of the securities market is also governed by the subsidiary legislations and regulations, administrative procedures and guidelines developed by the SFC, as well as by the rules and regulations introduced and administered by the exchange companies (i.e. the Stock Exchange and the Futures Exchange) of the HKEx. They have front-line responsibilities for maintaining the integrity, efficiency and fairness of those regulated markets, as well as for ensuring the financial soundness and correct business conduct of those regulated members.

Licensing regime

In most financial markets throughout the world, intermediaries providing securities, futures and foreign exchange services are required to obtain authorisation from a regulatory authority in order to conduct business. This requirement arises from the need for market participants generally, and investors in particular, to have confidence that the people and organisations with whom they deal are competent, honest, financially sound, and will treat them fairly.

Persons applying for licences and registrations under the SFO must satisfy and continue to satisfy after the grant of such licences that they are fit and proper persons to be so licensed or registered.

Like many other major common law jurisdictions, the SFC operates a system of authorising people (through licences) to act as financial intermediaries. The SFC issues licenses to corporations and individuals carrying out the following regulated activities:

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; and
Type 9 – asset management.

This is necessary to set and enforce standards of fitness and properness so that only those who meet these standards are permitted to act as financial intermediaries; and to ensure that investors are protected by having intermediaries of integrity and high standards.

In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable. The Fit and Proper Guidelines are made under section 399 of the SFO to replace the Fit and Proper Criteria issued in December 2000. They outline a number of matters that the SFC will normally consider in determining whether a person is fit and proper.

The Fit and Proper Guidelines apply to a number of persons including the following:

a) an individual who applies for licence or is licensed under Part V of the SFO;

b) a licensed representative who applies for approval or is approved as a responsible officer under Part V of the SFO;

c) a corporation which applies for licence or is licensed under Part V of the SFO;

d) an authorised financial institution which applies for registration or is registered under Part V of the SFO;

e) an individual whose name is to be or is entered in the register maintained by the Hong Kong Monetary Authority under section 20 of the Banking Ordinance ("relevant individual"); and

f) an individual who applies to be or has been given consent to act as an executive officer of a registered institution under section 71C of the Banking Ordinance.

Section 129(1) of the SFO sets out a number of matters that the SFC shall have regarded to in assessing a person's fitness and properness, which include:

a) financial status or solvency;

b) educational or other qualifications or experience having regard to the nature of the functions to be performed;

c) ability to carry on the regulated activity competently, honestly and fairly; and

d) reputation, character, reliability and financial integrity.

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).

In addition, section 129(2) of the SFO empowers the SFC to take into consideration any of the following matters in considering whether a person is fit and proper:

a) decisions made by such relevant authorities as stated in section 129(2)(a) or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;

b) in the case of a corporation, any information relating to:

    (i) any other corporation within the group of companies; or

    (ii) any substantial shareholder or officer of the corporation or of any of its group companies;

c) in the case of a corporation licensed under section 116 or 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:–

    (i) any information relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and

    (ii) 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;

d) in the case of a corporation licensed under section 116 or 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

e) 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 to be licensed 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 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.

Money lending business in Hong Kong

In provision of the credit facilities or financing to their clients in ordinary course of business, the relevant members of the Group will also be regarded as carrying on the business of money lenders within the meaning of the Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong.

The money lenders and money-lending transactions in Hong Kong are controlled and regulated by the Money Lenders Ordinance. In general, any person who carries on business as a money lender must apply for and maintain a licence (valid for 12 months) issued by the licensing court under this ordinance. An application for or renewal of this licence is subject to any objection by the Companies Registrar or the Hong Kong Police Force, the latter being empowered to carry out investigation in respect of such application or renewal including inspection of books and records provided by the applicant. The register of licensed money lenders is currently kept in the Companies Registry and available for inspection.

The Money Lenders Ordinance also provides for protection against and relief against excessive interest rates by, for example, making it an offence for a person to charge effective interest rate exceeding 60% per annum or extortionate provisions. It also stipulates various mandatory documentary and procedural requirements that are required to be observed by a money lender in order to enforce in the courts of law a lending agreement or security being the subject of this ordinance.

Regulatory environment for the insurance industry in Hong Kong

In Hong Kong, persons intending to act as an insurance broker either need to seek authorisation from the Insurance Authority ("IA") or apply to become member of a body of insurance brokers approved by the IA. An insurance broker that is directly authorised by the IA or is a member of an approved body of insurance brokers is subject to the same statutory requirements. Membership regulations of any body of insurance brokers must firstly be approved by the IA.

CASH Frederick Taylor, a subsidiary of the Company, is a member of CIB, an approved body of insurance brokers to implement self-regulation of insurance brokers of Hong Kong, has a membership of around 240 corporate brokers. It comprises a cross section of large and small companies with both local and international background. There are more than 2,500 persons registered with CIB in their capacity of either chief executives or technical representatives.

CIB was formed in February 1993 by the amalgamation of the Hong Kong Insurance Brokers Association ("HKIBA") founded in 1979 and the Hong Kong Society of Insurance Brokers ("SIB") founded in 1985. The HKIBA first established voluntary professional regulation of its members from 1979 and participated in the Law Reform Commission consultations in the early 1980's on regulation of insurance intermediaries. CIB therefore embodies almost 25 years of experience of industry self-regulation and was the primary industry body involved in the negotiation and establishment of formal self-regulation.

Insurance intermediaries are subject to self regulatory requirement under the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) ("ICO'). Under the ICO, insurance brokers are required to comply with certain minimum requirements and are also required either to obtain authorisation from the OCI or otherwise become members of a body of insurance brokers approved by the OCI. CIB is approved by the OCI to be a body of insurance brokers under section 70 of the ICO to implement self-regulation of insurance brokers in Hong Kong.

According to the IA, in order to be authorised as an insurance broker, it should either fulfill the minimum requirements specified by the IA or be admitted as a member of an approved body of insurance brokers such as CIB.

As a member of CIB, a person or corporate has to satisfy certain minimum requirements, namely the chief executive has the relevant experience and qualification, maintain a minimum capital and net assets of no less than HK$100,000, maintain a professional indemnity insurance, and keeping proper books and records from time to time.