INTRODUCTION

The Group is a financial services provider operating securities, futures and options, foreign exchange and commodities brokerage businesses in Hong Kong. The Group also provides financing services including margin financing and money lending; as well as a broad range of investment banking services including corporate finance, mergers and acquisitions advisory, capital raising, and underwriting. The Group also offers its clients asset management, wealth management and securities related research services. Shares are currently listed on GEM under stock code 8122. Most of the Group's businesses are regulated and supervised by the SFC, the HKEx and/or the license office of the Companies Registry as well as self-regulated by CIB (a body of insurance brokers approved by OCI to implement self-regulation of insurance brokers in Hong Kong). Details of the relevant licensing regime (in particular, with regard to the securities and futures industries as well as the insurance industry in Hong Kong) and the licenses currently held by the relevant subsidiaries of the Company are set out in the paragraph headed "Regulatory requirements" below. The Group provided financial services in Hong Kong during the Track Record Period. In addition, the Group offers its clients the channel to trade in some overseas financial instruments through third party intermediaries that are licenced to do so.

CASH, a Hong Kong based conglomerate involved in the provision of financial services (through the Group), home improvement, as well as lifestyle products and services, and on-line game business, is the controlling shareholder of the Company. CASH is listed on the Main Board under stock code 1049. As at the Latest Practicable Date, CASH, through its wholly-owned subsidiary, CIGL, beneficially owned 940,221,198 Shares, representing approximately 45.27% of the issued share capital of the Company.

HISTORY AND DEVELOPMENT

The Shares have been listed on GEM since 15 December 2000, at which time the Group's operations consisted of development and operation of electronic trading platform that allowed the Group's clients to execute their securities and commodities transactions through the Internet and mobile phones. Such online securities and commodities trading business had been spun off from the CASH Group. Nowadays the Group is continuing the development and operation of the electronic trading platform. In 2001, in the effort to foster additional synergies and better economies of scale, the two groups proceeded to integrate the CASH Group's traditional brokerage and financial services businesses with the Group's online securities and commodities trading business.

Set out below are the history and development of the Group and its businesses.

Background of the Group's online brokerage operations (i.e. the initial business operations)

On 11 November 1998, the CASH Group established CASH on-line, Inc. (i.e. CASH on-line), a company incorporated in the British Virgin Islands with limited liability, to spearhead development of an electronic trading platform of securities and commodities trading. On 9 August 2000, the Company was incorporated in Bermuda with limited liability under the name of CASH on-line Limited (the Company subsequently changed its name to CASH Financial Services Group Limited on 8 October 2001). Under a corporate reorganisation carried out in preparation for the then listing of the Shares on the GEM, CASH on-line was grouped under the Company as its wholly-owned subsidiary. In December 2000, the Company successfully listed on the GEM by way of introduction.

At the time of the GEM listing, the Company still relied on CASH Group's other subsidiaries (being participants of HKEx) for its business and operations, sourcing of clients, as well as various back office and corporate support services.

The merger of the Group's online securities and commodities trading business and the CASH Group's traditional brokerage and financial services businesses

Subsequent to listing of the Shares on the GEM, CASH and the Company decided in mid-2001 that the Group's online securities and commodities trading business should merge with the CASH Group's traditional "brick and mortar" brokerage and financial services businesses, so as to create additional synergies and better economies of scale. As such, a merger agreement was entered into between the relevant parties in June 2001 and the merger between the Group's online securities and commodities trading business and the CASH Group's traditional brokerage and financial services businesses was completed on 28 September 2001. Details of the merger were set out in the Company's circular dated 13 August 2001.

Development after the merger of the online brokerage business with the traditional brokerage and financial services businesses

As part of the long-term strategy, the Group decided that in addition to growing its traditional and online securities and commodities brokerage operations, as well as its complementary financing operations, it would seek to diversify its revenue bases by enhancing its investment banking and underwriting platform, as well as entering into the wealth management and asset management markets.

The Group officially entered into the financial planning and wealth management market in 2003. In July 2003, the Group entered into an agreement to acquire Frederick Taylor International Financial Services Limited, an independent financial advisory company with a team of 32 financial planning professionals at that time, as well as a licenced corporation for types 4 (advising in securities) and 9 (asset management) regulated activities under the SFO and a member of the CIB. The said acquisition was completed in September 2003. Following its acquisition by the Group, Frederick Taylor International Financial Services Limited was renamed "CASH Frederick Taylor Limited" and is now the Group's financial planning services and wealth management arm.

In August 2003, the Group entered into an agreement to acquire Chateron Corporate Finance Limited, then a deemed licensed corporation for types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO, in order to strengthen the Group's corporate finance and advisory capabilities and client base. The acquisition was completed in December 2003, and was a part of the Group's push to enhance and expand its investment banking operations, which are fee based income business.

Since then, the business of Chateron Corporate Finance Limited was merged into the Celestial Capital, the Group's investment banking business arm.

On 29 September 2003, the Company proposed a rights issue of a total of 251,518,816 Shares to its Shareholders (on the basis of 1 Share for every 2 Shares held) at the subscription price of HK$0.25 per Share to raise a net proceeds of approximately HK$62.90 million to support the Group's share margin financing portfolio and facilitate the growing securities brokerage business as well as for general working capital. The rights issue was completed in November 2003.

On 18 March 2004, the Company proposed a rights issue of a total of 377,278,224 Shares to its Shareholders (on the basis of 1 Share for every Share held) at the subscription price of HK$0.27 per Share to raise a net proceeds of approximately HK$101.87 million to support the Group's share margin financing portfolio and facilitate the growing securities brokerage business as well as for general working capital. The rights issue was completed in May 2004.

On 16 August 2004, the Company proposed the issue of the Convertible Loan Note to ARTAR, which was an Independent Third Party at that time, to raise an amount of approximately HK$40.50 million. In addition, the Company proposed to issue 132,000,000 Shares to CIGL at a subscription price of HK$0.27 per Share to raise an additional amount of approximately HK$35.64 million. The funds raised by the Company from the issues of the Convertible Loan Note and the 132,000,000 Shares were applied to support the Group's expanding share margin financing portfolio, to facilitate corresponding growth in its securities brokerage business and financial services business for the mutual funds and insurance-linked investment products in line with market development, and for general working capital purpose.

In June 2005, the Group launched its asset management business, which the Directors believed would tap into the discretionary managed accounts business, offering clients a tailored alternative to investing. The Group planed to grow this business.

In September 2005, the Group entered into an agreement to purchase the entire issued share capital of Netfield, the holding company of Netfield Group which is an online game developer and operator based in the PRC, one of the Asia's largest online gaming markets at a total consideration of HK$110 million from Mr. Lin Che Chu, who was an Independent Third Party at that time (Mr. Lin Che Chu is currently a director of each of CASH and CIGL). Completion for the said acquisition took place on 10 January 2006. In 2006, Netfield Group expanded its online game business from PRC to other markets in Asia by licensing the "King of Pirate" to the operators in Hong Kong, Singapore, Malaysia and Thailand for fees. In addition, Netfield Group secured an exclusive licence of "CABAL" from a South Korean developer to operate in PRC, Taiwan and Hong Kong. "CABAL" was first launched in Taiwan in November 2006 and was on its trial run in the PRC in December 2006.

On 22 September 2005, the Company proposed (i) a top-up placing of 145,000,000 Shares by CIGL, which subsequently subscribed for same number of Shares, at a price of HK$0.40 per Share; (ii) a placing of an additional 155,000,000 Shares by the Company to Independent Third Parties at a price of HK$0.40 per Share; and (iii) a subscription of an additional 120,000,000 Shares by CIGL at a price of HK$0.40 per Share, in aggregate to raise a total net proceeds of approximately HK$167.7 million to partly settle the consideration payable for the acquisition of the Netfield Group, partly for the operating capital of the Netfield Group and the balance for the general working capital of the Group.

On 18 January 2006, the Company issued 60,000,000 new Shares upon partial exercise of conversion right attaching to the Convertible Loan Note by the noteholder.

On 9 January 2007, the Group entered into an agreement to sell the entire issued share capital of Netfield to CIGL at the consideration of HK$120 million so that the Group could be able to concentrate and allocate more financial resources to expand its brokerage and financial services businesses. The disposal was completed on 1 June 2007. Since then, the Group has discontinued the online game business. At the time of acquisition of Netfield Group in 2005, the Group believed that based on its experience in the online infrastructure development and operation (the Group was the first mover in Hong Kong in introducing and developing the online trading platform for broking in securities and commodities), there would be synergy effect on the businesses of both of the Group and Netfield Group, for example through sharing or co-establishment of data base and online platform, cross selling of services between the Group and Netfield Group, after the acquisition. In addition, it was expected that Netfield Group could in long run generate a scalable income for the Group. Subsequent to the acquisition of Netfield Group, in 2006, the performance of the Hong Kong stock market have boosted significantly (the average daily turnover for 2006 was approximately HK$33.7 billion, approximately 85.2% up from HK$18.2 billion in 2005). Accordingly, the Group experienced a significant growth in its financial services business, and its revenue and net profits from its financial services business increased by approximately 62% and 148% respectively in 2006. Having taken into account the positive development in the Hong Kong stock market and the financial services business of the Group, and the funding requirement of the online game business in the short-run for its further development and expansion, the Company decided to dispose of Netfield Group in January 2007 such that more resources would be allocated to the financial services business of the Group to accelerate its growth. Upon disposal of Netfield Group, the Group recorded a gain on such disposal of approximately HK$41.7 million for the seven months ended 31 July 2007. With regard to the financial performance of Netfield Group during the period from 10 January 2006 (date of acquisition of Netfield Group by the Group) to 31 May 2007 (date of disposal of Netfield Group by the Group), please refer to the paragraph headed “Financial performance of the discontinued operation – online game business” under the section headed “Financial information” of this document and Appendix I to this document for more details.

On 11 May 2007, CIGL entered into an agreement to purchase a total of 27,000,000 Shares, representing approximately 1.95% of the then total issued share capital of the Company from an Independent Third Party at a consideration of HK$0.38 per Share. Immediately after completion of the acquisition, CIGL and the parties acting in concert with it (has the meaning ascribed thereto under the Takeovers Code which include Cash Guardian Limited, Law Ping Wah, Wong Kin Yick Kenneth, Lin Che Chu George and Kwan Pak Leung Horace and his wife) were interested in 740,293,980 Shares, representing approximately 53.53% of the then issued capital of the Company. As CIGL together with parties acting in concert with it acquired more than 2% of the voting rights of the Company immediately after the acquisition compared with their lowest collective percentage holding in the Company in the preceding 12-month-period, the acquisition had triggered mandatory cash offers by CIGL together with the parties acting in concert with it under the Takeovers Code to purchase all the issued share capital of the Company and all the outstanding options of the Company (other than those already owned by or agreed to be acquired by CIGL or parties acting in concert with it). The offers were closed on 28 June 2007, and CIGL acquired a total of 291,136 Shares (representing approximately 0.02% of the then total issued share capital of the Company as at date of the close of the offers) under the offers.

On 27 June 2007, the Company, through its subsidiary, formed a joint venture with Independent Third Parties to invest in a property development in Shanghai, the PRC which comprises a 11-storey office tower, a single-storey retail podium and a single-storey car parking basement. The Company's maximum commitment to the joint venture was estimated to be a total of RMB150 million (approximately HK$156.8 million), which would be financed by the Group's internal resources and bank borrowings. The joint venture was incorporated in the British Virgin Islands. There is a maximum of nine directors and the number of directors to be appointed by each partner of the joint venture ("JV Partner") shall be determined on a pro-rata basis reflecting the ratio of its shareholding percentage in the joint venture. Based on the current shareholding percentages of the joint venture, the board comprises six directors, of which two are appointed by the Group, two are appointed by each of the other two JV Partners. There is no termination clause in the relevant joint venture agreement ("JV Agreement"). However, a shareholder may transfer shares in the joint venture in accordance with the terms and conditions of the JV Agreement. There was no prior business relationship between the JV Partners and the Group. The Company's indirect shareholding interest in the joint venture will be disclosed as "interests in associates" on the balance sheet, and any profit and loss of the joint venture will be disclosed as "results attributable to associates" in the income statement of the Company. The Directors confirm that the joint venture provides the Group with a good opportunity to, through the Group's interest in the joint venture, secure premises for the Group's offices in the PRC for the purpose of expanding its financial services in the PRC. Upon set up of the leasing arrangement between the Group and the joint venture, rental shall be payable by the Group to the joint venture, which is an associate of the Company (terms of the rental, including the rental payable by the Company, is subject to further negotiation and agreement). The joint venture will be recorded in the financial statements of the Company using the equity method of accounting in accordance with Hong Kong Financial Reporting Standards.

On 2 October 2007, the Company proposed to raise approximately HK$237.4 million (before expenses) by way of rights issue of not less than 593,420,579 Shares (on the basis of 2 Shares for every 5 Shares held) at a subscription price of HK$0.4 per Share. The Company intended to apply the net proceeds of the rights issues of approximately HK$236 million to support its expanding share margin financing portfolio and to facilitate corresponding growth in its securities brokerage business in line with market development and for general working capital purposes. The rights issue was completed on 21 November 2007.

As at the Latest Practicable Date, CIGL was interested in 940,221,198 Shares, representing approximately 45.27% of the issued Share capital of the Company.

Following the abovementioned developments, the Group has experienced significant growth and development in each of its business segments, namely broking, financing, investment banking services, asset management and wealth management. In preparation for the Group's future growth, the Directors believe that the listing of the Shares on the Main Board will enhance the profile of the Group and increase the trading liquidity of the Shares. As such, the Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group.

COMPETITIVE STRENGTHS

The Group has over Track Record Period maintained a period of uninterrupted profit growth. The Directors believe that the Group's success hinges on the following competitive strengths:

- the Group has built well-established traditional and online securities and commodities trading platforms that are well recognised by the retail investment community in Hong Kong;

- the Group employs talents and resources including qualified and experienced professionals to provide a broad range of investment banking, wealth management, and asset management services;

- the Group is served by a dedicated and seasoned professional management team that has considerable experience in the financial services sector, as well as in technology infrastructure development and operations to support the Group's online securities and commodities trading activities; and

- the Group has multiple revenue streams and a well diversified client base.

BUSINESS STRATEGIES

The Group will continue to expand and grow its core financial services businesses, enhance and widen its products and services range, further diversify its revenue streams, and seek to create long-term value for the Shareholders. The Group will therefore focus its efforts so as to:

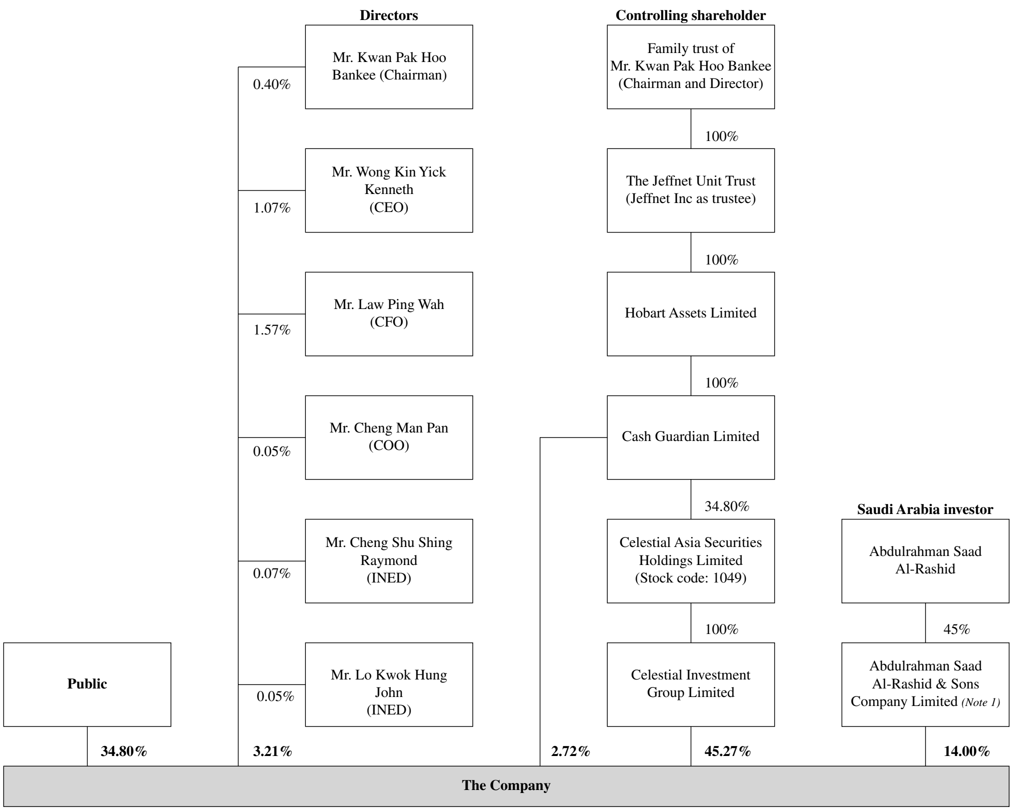
- expand its securities and commodities brokerage businesses and enhance the services and products offering to clients;

- continue to expand its investment banking services by targeting the growing pool of PRC related advisory deals involving Hong Kong listings, mergers and acquisitions and other corporate finance issues;

- continue to develop its asset management business and build its managed account portfolio; and
- capitalise on the Greater China's growing demand for wealth management services by offering clients tailored financial solutions in order to meet their wealth management needs.

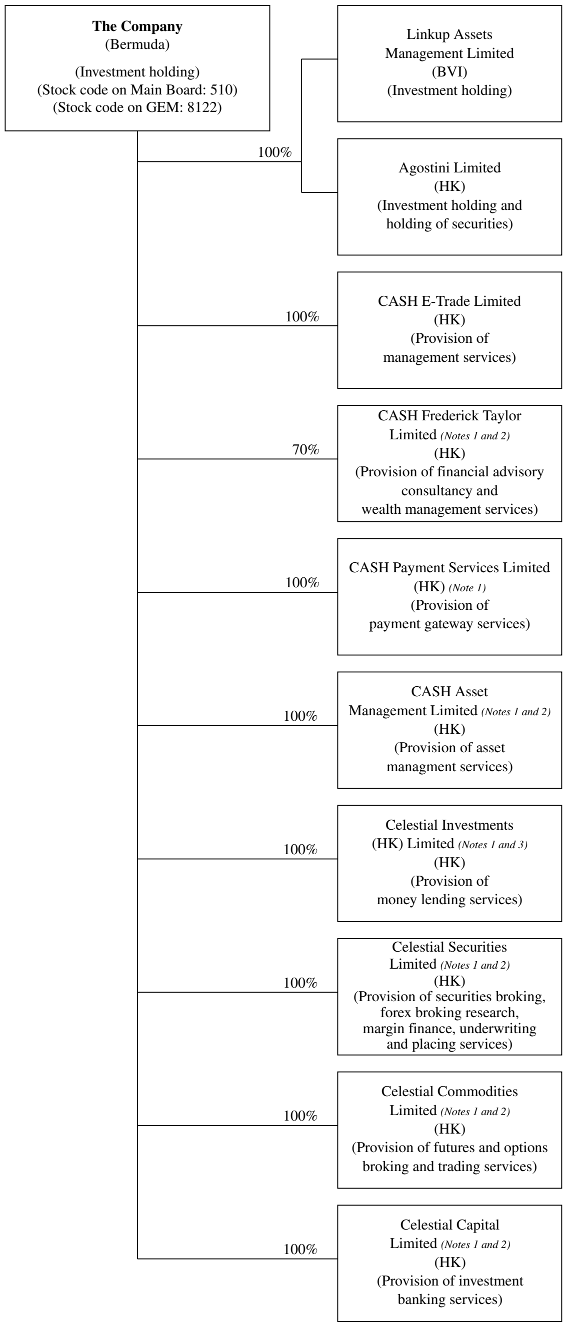
SHAREHOLDING AND GROUP STRUCTURE

The following chart illustrates the shareholding structure of the Company as at the Latest Practicable Date based on the registers of interest kept by the Company under Sections 336 and 352 of the SFO.



Note 1: Abdulrahman Saad Al-Rashid & Sons Company Limited is a substantial Shareholder and is not subject to any lock up arrangements.

Set out below is the Group's principal operating subsidiaries. The Company is an investment holding company. The subsidiaries of the Company mentioned below are principal operating companies engaged in various businesses of the Group.



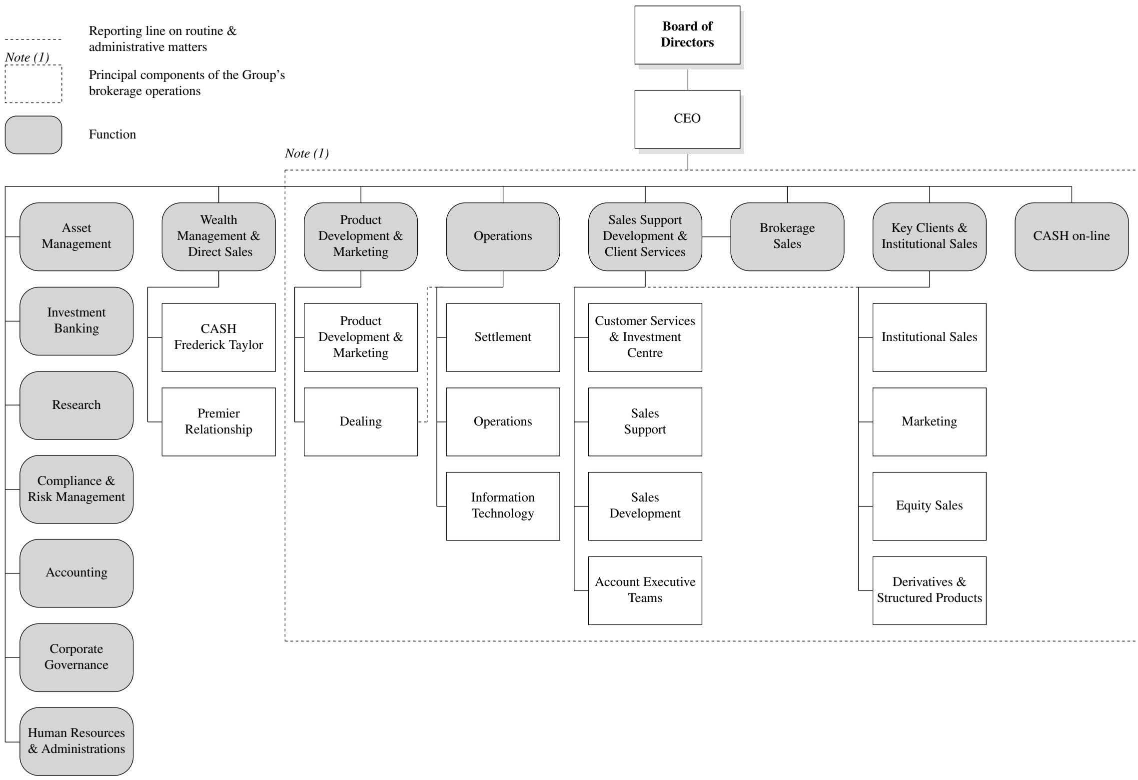
Notes: 1. *indirectly held*

2. *licensed corporation under the SFO and engaged in various regulated activities*

3. *corporation granted with a Money Lenders License*

MANAGEMENT ORGANISATION STRUCTURE OF THE GROUP

Set out below is the management organisation structure of the Group.



DESCRIPTION OF THE GROUP'S OPERATIONS

The Company confirms that they have obtained all necessary licenses and approvals in Hong Kong in relation to conduct of its business since the beginning of the Track Record Period to the Latest Practicable Date.

Securities and commodities broking

Overview of the securities and commodities broking business

The Group's securities and commodities brokerage businesses facilitate clients to trade securities, futures, options, commodities, and other fund related instruments in Hong Kong through traditional channels, as well as through Internet based and mobile phone based electronic trading platforms. The Group is categorised as a group B broker by the Stock Exchange, serving institutional clients, retail clients and traders.

The Group provides securities brokerage services through Celestial Securities, one of Hong Kong's largest retail brokerage operators. Celestial Securities is a licensed corporation under the SFO to engage in type 1 (dealing in securities) regulated activity as well as a Stock Exchange Participant.

The Group also provides Hong Kong and overseas commodities trading services, as well as trading services for Hang Seng Index Futures and Options, Mini-Hang Seng Index Futures Contracts, and Stock Futures. Such services are undertaken by Celestial Commodities, a wholly-owned subsidiary of the Company. Celestial Commodities is a licensed corporation under the SFO to engage in type 2 (dealing in futures contracts) regulated activity as well as a Futures Exchange Participant under the Futures Commission Merchant category of the Futures Exchange.

The securities and commodities brokerage business generates income by charging commissions (plus some associated fees) in respect of transactions executed through the Group's traditional and online trading platforms. The level of overall market activity and the volume of trades executed through the Group's trading platforms directly affect the revenues of the Group. As such, the securities and commodities brokerage business is dependent upon the prevailing global and Hong Kong economic environment as well as the local investors' sentiment towards securities and commodities.

The commissions charged by the Group for its securities and commodities broking services vary with and are dependent upon the type of transactions executed as well as the relevant volume of each transaction. Since 1 April 2003, minimum brokerage commission rates in respect of securities and commodities trading in Hong Kong have been deregulated, and therefore brokerage commissions are subject to market forces and negotiations and become susceptible to downward pressure from time to time. Nevertheless, the surge in market activity during the Track Record Period has mitigated the effect of such market deregulation, and market players have adapted to this more competitive commission regime.

As at the Latest Practicable Date, the Group has maintained approximately 39,000 active brokerage accounts.

The Group's brokerage clients are served through the Group's employees as well as account executives who are engaged by the Group. The brokerage clients of the Group can be classified into three main categories, namely (i) institutional clients, (ii) traders, and (iii) retail clients. Institutional clients are qualified professional investors and/or funds who trade in large volume, whereas traders are individual clients who trade frequently in larger volume and sometimes with higher leverage arrangement than the regular retail clients.

In terms of trading volume and income generated by the Group under the securities and commodities brokerage service for the year ended 31 December 2006, the income received from the retail clients comprised more than half of the brokerage income of the Group, followed by traders and institutional clients.

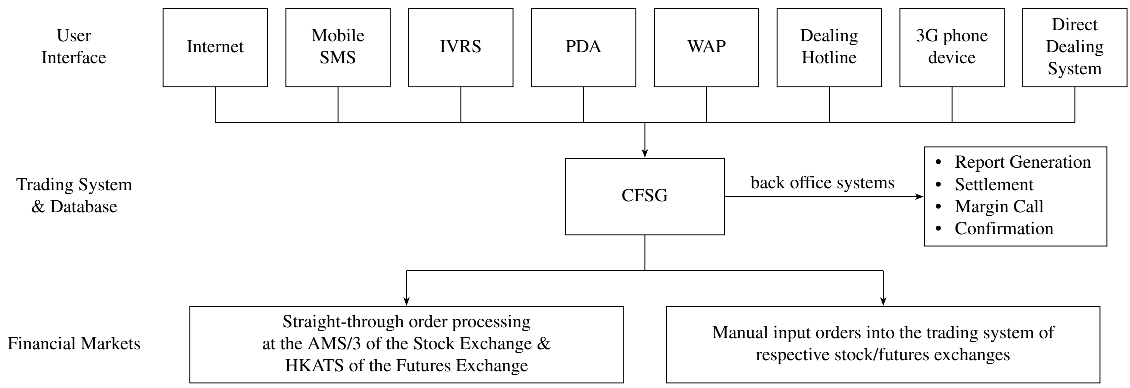
Activities of account executives engaged by the Group and clients' online trading activities are closely monitored at all times on a real time basis, by the Group's computer systems as well as its settlement department and other control personnel. Any unusual trading activities involved will be immediately reported to the relevant responsible persons, and appropriate actions and response measures in compliance with the Group's credit control and trading policies and procedures will be taken in order to minimise and mitigate risk to the Group and its clients.

The Group's securities and commodities brokerage business grew steadily during the Track Record Period in terms of turnover and profitability due to favourable general market condition and the efforts made by the management of the Group over the past few years to keep a lean cost structure, as well as the continuous improvement of the delivery channels, service quality and reliability of its traditional and electronic execution platforms; all of which have enabled the Group's core securities and commodities brokerage business to grow.

Overview of the Group's electronic trading platform

The Group's electronic trading platform was set up to support securities and commodities trading via the Internet, IVRS, Mobile SMS, PDA, WAP and 3G phone devices. For the year ended 31 December 2006, Internet trading accounted for a major portion of the Group's electronic trading volume. Clients can use the electronic trading platform to conduct real time trading in securities (namely US, China B, and Hong Kong shares), futures, options and warrants, international and domestic commodities, as well as to apply for IPO and margin financing online.

The following chart shows the various methods with which clients of the Group can (via the Group's electronic trading system) gain access to the financial markets and thus conduct their trading activities.



The online brokerage clients can check the realized and unrealized profit and loss situation of their portfolios in a real time environment. The Group's electronic trading platform supports flexible settlements, which are tailor made to the settlement policies of different markets e.g. Hong Kong, the PRC and the US. The clients are able to trade in one or more currencies in their accounts, whereby currency exchanges are executed automatically at settlement; and clients can use various electronic banking methods including ATM and Internet banking to transfer funds to and from their electronic trading accounts. The electronic trading platform supports English and traditional and simplified Chinese.

The Group's electronic trading platform is used internally by in-house staff of the Group and externally by its online brokerage clients, who will be charged for the relevant electronic brokerage fees.

As at the Latest Practicable Date, the Group's electronic trading system had approximately 16,000 online brokerage client.

EDGE – Internet trading

EDGE is the name of the Group's Internet trading system, which allows a online brokerage client to place trade orders, view account balances, positions, transaction status and trading history all through the Internet; and automatically checks the parameters of an order, cash and stock balances of such online brokerage client's account(s) and positions held, prior to processing an order.

Under the AMS/3 system of the Stock Exchange, securities trading orders are processed by electronically routing the buy or sell orders to the Stock Exchange. Under the HKATS system of the Futures Exchange, commodities trading orders are processed by electronically routing the buy or sell orders to the Futures Exchange. EDGE provides electronic notification of order executions, order confirmation and daily and monthly statements print-outs. Online brokerage clients of EDGE can transfer funds as well as securities to and from their own accounts maintained with the Group. EDGE also offers eIPO service, through which online brokerage clients of EDGE can view the prospectus of a new issuer at the Group's website or through hyperlink to certain websites and apply online for new shares and margin financing offered under an IPO or through downloading and printing an application form to make an application for the IPO shares.

The primary components of EDGE include a graphical user interface, the back-end interfacing system and a web server that connects the clients to the Stock Exchange or a broker dealer. The Group maintains a team of development and technical staff to enhance the system software and develop new services and products. EDGE software is designed to be versatile and adaptable, so that the EDGE engine can be further upgraded to meet the demands of the market.

For electronic trading security, the Group uses a combination of proprietary and industry standard security measures to prevent unauthorised access and protect customers' data integrity. The Company uses Secure Socket Layers technology for data encryption. All trades are encrypted and transmitted in a secured mode with digital certification and authentication services provided by VeriSign, Inc. Each online user of EDGE is assigned unique account login and password to log on to the system. A trading password is used prior to order placing which serves as a third level protection. In addition, a number of security servers and Internet scanners are in place to monitor and safeguard the system.

The EDGE system is accessible by online brokerage client via *www.cashon-line.com*, the Group's trading and information website, which was formally launched in September 2000. The website provides real-time stock quotes, financial market news, up-to-date market commentary and recommendation on selected global markets and companies listed on the Stock Exchange provided by Celestial Securities and is linked to related financial websites including those websites releasing updated financial news around the world. The Directors believe that the Group's website content including quotes, charts and fundamental data help to provide investors/clients with the information which assists them to make investment decisions and in turn is expected to help to increase transaction volume through the Group's trading platform.

SmarTrade – mobile phone trading

SmarTrade is the GSM/PCS mobile phone securities and commodities trading platform operated by the Group for subscribers of SmarTone, a telecommunication service provider in Hong Kong by using short messaging and SIM application toolkit technology. SmarTrade includes a variety of functions and services that allows online users to place securities and commodities orders and monitor accounts from their GSM or PCS mobile phones.

Under the AMS/3 system of the Stock Exchange, securities trading orders are processed by electronically routing the buy or sell orders to the Stock Exchange. Under the HKATS system of the Futures Exchange, commodities trading orders are processed by electronically routing the buy or sell orders to a broker dealer and then this broker dealer sends such order to the Futures Exchange. A trade confirmation will be transmitted to the online user's mobile phone. Clients can also use the system to make enquiries about their transaction status and their portfolio information. Online users of SmarTrade can trade in Hong Kong securities and commodities in any places where GSM roaming are available.

SmarTrade is secured through a personal identification number (PIN) co-developed by the Group and SmarTone and a GSM encryption. SmarTrade also applies proprietary encryption on the point to point communications.

3G mobile phone trading

From 17 December 2004, clients who are also subscribers of the 3G services of 3 Hong Kong, a telecommunication service provider in Hong Kong, can manage the trading transactions for those securities listed on the Stock Exchange directly via their 3G video mobile phones. The online clients just need to follow simple instructions to operate their accounts. Functions including: buy/sell order placement, change or cancel unexecuted instructions, transaction status enquiries, account balance enquiries and change of password.

Financing

The Group provides margin and IPO financing as well as other financing services to its clients, and the contribution to the Group from the Group's financing services is significant. Margin financing refers to the financing provided by the Group with listed stocks as collaterals. IPO financing refers to the financing provided by the Group for the purpose of application for shares offered under IPOs. Other financing services refer to financing other than margin financing and IPO financing provided by the Group under its money lender licence. The Group's margin and IPO financing services are part and parcel of the Group's brokerage business as a whole. As such, the performance of the Group's financing services is significantly linked to the trading volume of securities and commodities executed through its brokerage operations. With margin and IPO financing provided by the Group, the Group's clients are provided with facilities to maximise the use of their capital to trade in the market. The Group's financing services are mainly offered through the Company's wholly-owned subsidiaries, Celestial Securities and Celestial Investments (HK) Limited. Currently, the Group's financing activities are managed by the Group's credit and risk management committee, comprising 8 members from the Group's senior management (including 5 executive Directors), which oversee all margin and IPO financing activities of the Group.

The Group generates service charges and interest income through offering securities-backed financing to margin trading clients, structured securities financing to substantial investors investing in mainly blue chip stocks and other quality stocks, IPO financing for subscriptions for new shares relating to IPO, as well as other financing. The Group also generates interest income from margin financing provided to certain pre-approved clients through Celestial Securities. Celestial Securities is a licensed corporation under the SFO to engage in type 1 (dealing in securities) (and margin and IPO financing is provided incidentally to engage in type 1 regulated activity) and type 3 (leveraged foreign exchange trading) regulated activities and Celestial Investments (HK) Limited is a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

The Group imposes sophisticated credit control measures to monitor its financing activities. All margin and IPO financing and other financing activities are carried out pursuant to pre-set control procedures defined by credit and risk management committee, which oversees credit issues and risk controls for the entire Group. With regard to margin financing, credit and risk management committee predefines various stock margin ratios, which it uses to control all account financing activities for blue-chip or quality stocks. For those stocks that are deemed to be risky by credit and risk management committee as well as overseas traded stocks, cash upfront is required. Also, commodity trades require strict minimum balances maintained at the clients' accounts for margin trading.

The Group's computer system tracks all clients' accounts on a real time basis, whether they are traditional brokerage accounts serviced by account executives engaged by the Group or online accounts through which clients placed orders themselves. In the occurence of any "net-buy" situations (i.e. net commitments to purchase stocks), liquidity problems, or risky stock trading activity, the Group's computer systems will alert the credit and risk management committee personnel immediately. Members of credit and risk management committee will review daily, weekly and monthly unusual client activities. When making credit limit decisions, credit and risk management committee will delegate designated personnel to review and report a specific client's profile, trading history, trading pattern, the relevant market conditions, the stock/commodity/sector outlook, the client's financial position, as well as any relevant risk to the Group. Hence, apart from the pre-set margin ratios, which help to control the Group's exposure, margin calls are ultimately at the discretion of credit and risk management committee or its delegated personnel.

Research

The Group has its own research team and it publishes and distributes securities and market research and analysis through Celestial Securities. As at the Latest Practicable Date, the Group's research department comprises an experienced team of 7 market researchers who have worked closely with other business units of the Group to provide its brokerage clients and other clients with daily market reports containing information on major indices, regional and global economic indicators, as well as comments on company results and other market intelligence. The Group's research service is particularly useful for the its brokerage clients, who may rely on the up-to-date information provided by the research team when making decisions on investments. The Group's research reports and market data are also available online. No revenues are generated from the Group's research services.

Wealth management

As at the Latest Practicable Date, the Group's wealth management unit, comprising approximately 70 professional consultants, helps clients with their financial planning and wealth management needs. The Group offers its wealth management services through CASH Frederick Taylor. The Group's wealth management team analyses the needs of the clients and advises them on how to structure their investment programs and provides solutions in order to assist the clients in achieving their wealth management objectives.

The wealth management unit of the Group seeks to get-to-know and to build long-term professional relationships with clients. Through CASH Frederick Taylor, clients are offered a portfolio of investment products including international and local third party investment funds and insurance and non-insurance linked investment products.

At the time of the Group's acquisition of CASH Frederick Taylor in July 2003, there were 513 wealth management clients. As at Latest Practicable Date, this unit had over 2,900 wealth management clients.

While most of the wealth management unit's revenues come from third party institutions for the marketing and sales by the Group of investment funds, and insurance and non-insurance linked investment products offered by such institutions to the Group's clients, such revenues are grouped under the Group's broking business.

Asset management

CASH Asset Management Limited launched the asset management business in June 2005 and provides tailored Hong Kong securities portfolio investment services, by offering clients medium to long-term securities investments solutions via discretionary managed portfolios, which are managed by the Group's professional fund managers.

As a result of the continuous effort of CASH Asset Management Limited for the purpose of increasing its client base, it had approximately HK$442 million under management and approximately 200 clients as at the Latest Practicable Date. Asset management clients are charged for management fees and performance fees for the Group's asset management services provided, which are grouped under the Group's broking business. The Group's asset management business began to generate revenues during the year ended 31 December 2006. This business unit had 2 professionals at the Latest Practicable Date to spearhead expansion of the discretionary managed portfolio management business.

Investment banking services

Founded in 1998, Celestial Capital, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, provides both private and listed companies in Hong Kong and the PRC with a wide range of investment banking services in Hong Kong, including both GEM and Main Board listing sponsorship; underwriting and placing of securities; mergers and acquisitions advisory; corporate financial advisory as well as a range of capital raising and restructuring solutions services, which are all negotiated fee income related businesses (save for underwriting and placing of securities as commissions are charged based on the consideration of the securities being underwritten and/or placed by the Group). In addition, the Group, through its securities trading platform, also provides its investment banking clients with institutional equity sales and trading services in both the secondary market and the primary market. Underwriting and placing services are also provided by Celestial Securities to the Group's clients.

The Group's investment banking business has grown in recent years, and the Group has successfully built a strong network of corporate clients, including Hong Kong based and PRC based clients, as well as a solid equity underwriting track record in Hong Kong. The Directors are of the view that investment banking transactions originating from the PRC, particularly those relating to pre-IPO advisory and listings in Hong Kong, as well as mergers and acquisitions will continue to grow in the medium to long-term; and that the Group should aggressively target the PRC corporations seeking overseas listings or mergers and acquisitions involving Hong Kong listed companies in order to further develop/enhance the Group's sponsorship advisory, financial advisory and equity underwriting pipeline.

MAJOR CLIENTS AND SUPPLIERS

The Group's key clients consist of individual and corporate brokerage clients.

As at 31 December 2006, the Group had approximately 33,000 active brokerage accounts. As at the Latest Practicable Date, the Group had approximately 39,000 active brokerage accounts.

The Group's investment banking clients consist of mainly Hong Kong and PRC based listed and private corporations.

For each of the three years ended 31 December 2006 and for the seven months ended 31 July 2007, the Group's turnover attributable to its five largest clients accounted for approximately 8.0%, 6.1%, 4.9% and 6.7% of the Group's total turnover respectively.

The Group's largest operation is its securities and commodities brokerage businesses, which has historically accounted for the bulk of the Group's recurring revenue and profit. Due to the nature of the securities and commodities brokerage businesses, the Group's largest clients varies from year to year, depending on clients' trading volume.

The Group has no major suppliers due to the nature of the principal activities of the Group.

To the best knowledge of the Directors, none of the Directors, chief executives or substantial Shareholders has any interests in the share capital of the five largest clients during the Track Record Period.

SALES AND MARKETING

The Group's sales and marketing strategy focuses on the building of the Group's brand name and the public awareness of its financial products and services.

Aside from the Group's front-line professionals and customer relations personnel who market the Group's products and services, capabilities, and track record; the Group also advertises on television and billboards in Hong Kong and employs road-shows, publications, website marketing, and public relations programs to build awareness of and promote the Group's name, reputation, products and services. Through the Group's website, prospective users can obtain detailed information on the Group's products and services and request additional information on the products and services provided by the Group. The Group regularly runs promotions and seminars to allow potential clients to learn about the Group and its products and services in the first hand.

As at the Latest Practicable Date, the Group's marketing team comprises 5 staff members who are responsible for formulating the Group's marketing strategies, performing market analyses, coordinating promotional activities, and developing brand awareness campaigns.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal control

The Group's compliance and risk management department is an independent, objective assurance and consulting unit which is designed to focus on enhancing and sustaining sound internal control in all business and operational units of the Group and reports functionally and directly to the Board. The compliance and risk management department conducts a wide variety of internal control activities such as compliance audits and operations and system reviews to ensure the integrity, efficiency and effectiveness of the systems of control of the Group.

Segregation of duties to minimize the chance of collusion

To minimize the chance of collusion, jobs duties and functions required to operate the ordinary activities are segregated and discharged by different departments. Details are summarised as below:

a) Customer services department is responsible for opening of client accounts and handling of clients' enquiries. Their operating procedures in respect of account opening and clients matters handling are governed by the internal policies and guidelines and relevant SFC regulations. All account opening is processed by staff of customer services department who are licensed by the SFC and further approved by the head of the customer services department. Any exception for example on commission charges require the management's approval.

b) Front-end account executives ("AEs") of the sales department are responsible for taking daily order placed by the clients and providing the respective investment advice.

c) Dealing orders placed by the clients or their AEs will be input by the dealers of the dealing department into the Direct Dealing System ("DDS"), which interface Stock Exchange's trading system. As part of the internal control, the error trading report will be reviewed and submitted by the head of the dealing department monthly to the Group's credit and risk management committee for discussion and review.

d) Handling of client money and securities asset is the primary job duty of the settlement department. As part of the operating procedure, any asset withdrawal in form of money or securities assets has to undergo checking and approval procedures. The actions to effect the withdrawal transaction are executed by two different management personnel pursuant to the monetary approval hierarchy approved by two executive Directors. In executing the transaction, high-level review on the transaction is performed to monitor whether there is any irregularities.

e) Printing and mailing of client statement is outsourced to the third party vendor independent of Group's management. The vendor mails to the statement to the client directly.

f) Complaints from clients are handled by the compliance and risk management department. According to the Company's policy, the Group has provided several channel to ensure complaints are communicated to and handled promptly and fairly by the compliance and risk management department. Upon receipt of the complaints from clients, compliance and risk management department will review details and conduct independent investigation. The investigation result will be reported to senior management or the Chairman of the Board, depending on the implication of the investigation. The compliance and risk management department will inform the client of the investigation results upon completion of the investigation.

Chinese Wall

As a financial institution offering diversified businesses such as equity and non-equity brokerage, corporate finance and research, etc., the Group will inevitably face conflict of interests where two or more interests exist legitimately but are competitive or opposed in nature. In order to ensure that clients are treated fairly, Chinese Walls are established within the Group to control areas of possible conflicts.

The Chinese Wall system is an established arrangement to prevent confidential information, particularly price-sensitive information, known to persons in one part of a business, from being conveyed (either directly or indirectly) to persons in another part of the business. As such, decision in one part of the business will be taken without reference to any interest of any other part or any person in any other part may have in the matter where this might give rise to a conflict of interests.

To enforce the Chinese Wall policy, the Group established physical segregation and access controls between departments and units, which include:

Sales department
Dealing department
Accounts department
Investment banking group
Research department
Compliance and risk management department

In general, staff engaged in a particular operational activity should not enter the premise or separate office area occupied by any other operational activity on the other side of a Chinese Wall.

However, for sake of operation, there will be occasions for information to pass between areas normally separated by Chinese Walls. The requirements for crossing a Chinese Wall are as follows:

a. The crossing is for the legitimate work-related purposes and is approved by the relevant department head or the designated person of the other side of the Chinese Wall.

b. Staff whom has been brought over the Chinese Wall may not disclose to anyone else any unpublished price-sensitive information to which they have been made privy. They should also guard against inadvertent disclosure of such information.

It is recognized, however, that senior management and compliance staff when performing their group central management and monitoring responsibilities respectively may transcend the Chinese Walls. However, they should ensure that information received in the aforesaid capacity must not be passed down into the Chinese Wall areas nor used for any other purpose.

Conflict of Interests

Conflict of interests arises in situations where two or more interests are legitimately present and which compete or conflict.

Conflict can arise between:

a. interests of different operating activities within the Group;

b. interests of the Group and those of its clients;

c. interests of different clients;

d. interests of staff's personal activities and those of the Group; and

e. interests of staff's personal activities and those of the clients of the Group.

Staff's personal activities include any personal trading, outside directorship and business or independent practice.

It is the Group's policy to ensure that:

a. there is an adequate level of staff awareness of the issues relating to conflict of interests;

b. staff understand the basic principles relating to client priority, insider dealing, confidentiality, staff dealing and Chinese Wall;

c. conflict of interests is avoided whenever possible or kept to a minimum; and

d. conflict of interests is properly disclosed and handled.

Staff must avoid any actual or potential conflict of interests as defined above. Where a conflict cannot be reasonably avoided, staff must ensure that the conflict is properly disclosed to the relevant parties and approval is sought from management before any action can be taken. Under all circumstances, staff must ensure clients are fairly treated and the interest of staff should be subordinated to those of clients where conflict of interests arises with clients.

If there is any doubt, the staff should discuss with the department head, and if necessary, the staff of Compliance Division, before taking any action that may lead to a conflict of interest.

Staff Dealing Policies and Procedures

Staff, including employees, accountant executives and front-end staff, of the Group is not allowed to have beneficial interest in or control over any investment account with member of the Group for the trading of securities, stock options, commodities and any other financial products, unless he/she has follow the procedures described below:

I. complete the "Staff Account Opening Requisition" form and issue an instruction letter which authorise the Group to request and receive the staff personal trading data;

2. seek approval from the relevant department head and related functional director on the requisition; and

3. return the approved form and the instruction letter to the Compliance Division.

After proper completion of the above procedures, Compliance Division will provide the consent letter and/or instruction letter for collecting information to the related financial institution.

All staff of the Group are required to disclose all his or her accounts/related accounts with any member of the Group and other financial institutions. Related accounts include accounts of their minor children (children under the age of 18) and accounts in which they have a beneficial interest.

For monitoring purposes, the Group may exercise its authorised power to request and receive the staff personal trading data from the related financial institution periodically.

Trading of leveraged foreign exchange is prohibited for all staff and thus leveraged foreign exchange account is not allowed to be opened with the Group or with any other financial institutions.

All newly joined staff of the Group and all existing staff with any subsequent addition of investment accounts have to complete the "Staff Dealing Declaration Statement" to declare investment account(s) opened or maintained with any member of the Group and other financial institutions and agree to comply with the above policies and procedures.

Anti-Money Laundering

Money laundering covers a wide range of activities and processes intended to alter the identity of the source of illegally obtained money in a manner which creates the appearance that it has originated from a legitimate source. All staff of the Group are required to comply with the Hong Kong laws and the SFC Guidance Notes on Money Laundering. Staff who knows, suspects or has reasonable grounds to believe that a client might have engaged in money laundering activities must immediately report the details to the Compliance Division which, in turn, will discuss with the senior management. Where applicable, the case will be reported to the Joint Financial Intelligence Unit ("JFIU"). The Compliance Division will maintain a register of all referrals from the staff and all reports made to the JFIU.

Risk management

The Group recognizes the changing nature of risk and manages it through a well-diversified management structure. The principal types of risk inherent in the Group's business include credit, market, interest rate and liquidity risks. Credit risk occurs mainly in relation to the Group's financing activity. Market risk is associated with the Group's position in foreign exchange and equity securities. Interest rate risk relates to the risk to the Group's financial condition resulting from adverse movements in interest rates. Liquidity risk arises across the liquidity of Group's balance sheet.

In addition, the Group's major financial instruments include equity investments, statutory and other deposits, bank borrowings, account receivables, account payables, convertible loan note and bank balances. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Equity price risk

The Group is exposed to equity price risk of the securities held for the margin finance accounts. With regard to the equity price risk relating to the margin finance accounts of clients which is monitored by the Group's settlement department, clients will be requested to deposit adequate funds into the accounts to cover the positions of the accounts, if necessary. The Group is also exposed to equity price risk in relation to its investments in equity securities. The Board manages the exposure by closely monitoring the portfolio of equity investments.

The monitoring process would include the following:

1. A centralized desk is established and a designated staff is appointed to monitor the changing market conditions and the Company's trading activities so as to alert the management and the relevant operational staff for any significant risk exposures of the Group so that appropriate and timely action can be taken to manage such risks.

2. A risky stock list is established to identify risky stocks traded in the market to facilitate controls on clients' trading activities and the Group's margin financing activities.

As at 31 December 2004, 2005 and 2006 and 31 July 2007, the investments held for trading by the Group amounted to approximately HK$47,032,000, HK$42,472,000, HK$54,317,000 and HK$24,133,000 respectively. The investment objectives of the Group are to maximize return at an acceptable risk while adequate liquidity is maintained in order to meet the Group's operating cash flow requirement. In order to avoid risk associated to individual investment, there is a general policy that a reasonable diversification between different marketable asset classes and investment categories should be maintained at all times. As such, investments in the equity securities of any one company and investments in securities of any one sector may not exceed 20% and 30% respectively of the investment portfolio of the Group, unless with prior consent of the investment committee of the Group ("Investment Committee"). In addition, investment should be limited to marketable securities in Hong Kong and no investment in futures and derivatives should be made unless with prior consent of the Investment Committee. In order to closely monitor the performance and risk of the investment portfolio, a team is specifically delegated to review and monitor the investment portfolio from time to time. The team would review the market trends, analyze data, estimate the risk with reference to the research reports provided by international financial institutions and the Company's Research Department. It in turn provides the advice to the Board for making investment decision. In addition, the investment portfolio would be presented to the Investment Committee and reviewed by it from time to time with reference to the prevailing market conditions and underlying trading purpose on investment gains and liquidity as mentioned above.

Interest rate risk

Most of the bank borrowings, that are matured within 3 months and are collateralised by margin clients' securities and the loans to margin clients carry interest at variable rate which exposes the Group to cash flow interest rate risk. The Group currently does not have a policy to hedge its interest rates position. However the management of the Group closely monitors the Group's exposure to future cash flow risk as a result of change on market interest rates and will consider hedging changes in market interest rates should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the clients' and foreign brokers' failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. To address the risk, the credit and risk management committee is responsible to oversee the policy set-up and measures initiated to mitigate the credit risk. Credit and risk management committee holds the meeting monthly to discuss the risk matters noted within the Group.

Credit risks in relation to clients, especially those related to margin receivables, are monitored by the credit and risk management committee, which is also responsible for approving trading limit and credit limit. At the same time, credit and risk management committee has to review the mortgage ratio of the listed stocks from time to time. In addition, as licensed accounts executive play a key role to control clients' credit risk, licensed accounts executive grading exercises are carried out regularly for credit and risk management committee's approval. A trading limit is also set up for each individual account executive to manage the Group's exposure on excessive client trading on individual account executive basis. In addition a trading limit on individual client is established so that the Group's risk exposure on excessive client trading is under control. For those delinquent receivables, any recovery actions are also determined in credit and risk management committee. A debt collection policies and procedures has been set up to streamline the debt collection operations so that delinquent clients can be timely and properly handled.

At each balance sheet date, the Group review the recoverability of each individual account receivable to ensure that the adequate impairment losses are made for irrecoverable amounts. Having taken into account the above measures taken by the Group, the Directors consider that the Group's credit risk is effectively controlled and significantly reduced.

In view of the recent volatility of the stock market due to the subprime problems in the US, the Group has tightened its credit control policy and reduced the loans to margin clients of approximately HK$611 million as at 31 July 2007 to below approximately HK$300 million as at the Latest Practicable Date and the average advance ratio (i.e. loans to collaterals) has been maintained at below 40%. From 31 July 2007 (being the period end date of the Track Record Period) to the Latest Practicable Date, the Group is not aware of any material bad and doubtful debts due from margin clients.

Other than concentration of credit risk on amounts receivable on disposal of subsidiaries which are payable by CIGL, the Group does not have any other significant concentration of credit risk as the exposure spread over a number of counterparties and customers.

Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with CCASS or brokers and clients. To address the risk, the Group's accounting department works closely with the settlement department on monitoring the liquidity gap. Pursuant to the operation manual, daily reports are prepared to monitor cash deposits in hand and bank facilities utilization for better management of the overall liquidity position. In addition, for contingency purposes, unutilised loan facilities are obtained as additional precautions.

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. Foreign exchange risk, if any, arising from broking in foreign shares and commodities, will be closely monitored by the Group's head of settlement department. The Directors are of the view that the foreign exchange risk to the Group is minimal.

COMPETITION

Competition in the financial services sector in Hong Kong is extremely intense, as there are many market players in securities and commodities broking, financing, investment banking, asset management and wealth management. Both local and international institutions compete for fees, mandates, and commissions (all of which are subject to competitive market forces) within the territory, one of Asia's leading financial markets.

In order to compete effectively, the Group makes every effort to ensure that it is in touch with the market in order to have sufficient knowledge on the Group's client demand and its competitors in each of its businesses, and it seeks to maximise new business revenue generating opportunities by procuring new clients and delivering products and services that measure up to or exceed market expectations. The Group also recruits, trains and maintains the best possible management and professional teams and seek to improve its corporate controls, information systems, marketing efforts, and support infrastructures; so as to adapt to and withstand any sudden shifts in market conditions. Finally, the Group maintains an efficient and lean cost structure in order to maximise shareholders' returns.

REGULATORY REQUIREMENTS

Licensed corporations under SFO, Money Lenders Ordinance and Insurance Ordinance

Due to the licensing regime of the SFC, in order to engage in the core businesses of the Group, the relevant subsidiaries of the Group and its responsible personnel have to obtain the relevant licences and comply with the relevant regulatory requirements from time to time. In addition, the Group has been granted money lenders license and insurance license for its financing and insurance-related wealth management activities.

Set out below is a summary of the relevant licenses (including conditions imposed) currently held by the relevant licensed subsidiaries of the Group.

		Type of regulatory activities under the SFO						Money lenders license	Long term (including linked long term) insurance license
	Notes	Dealing in securities (type 1)	Dealing in futures contract (type 2)	Leveraged foreign exchange trading (type 3) *(Note 5)*	Advising on securities (type 4)	Advising on corporate finance (type 6) *(Note 5)*	Asset management (type 9)		
Name of licensed subsidiary									
Celestial Securities Limited	*(note 1)*	✓		✓					
Celestial Capital Limited	*(note 2)*	✓				✓			
Celestial Commodities Limited	*(note 3)*		✓						
CASH Asset Management Limited	*(note 4)*						✓		
CASH Frederick Taylor Limited	*(note 5)*				✓		✓		✓
Celestial Investments (HK) Limited	*(note 6)*							✓	
Celestial Finance Limited	*(note 6)*							✓	

Notes:

1. a) The current type 1 license was issued on 19 Feb 2004. The current type 3 license was issued on 13 March 2004. Annual review of the license is required.

   b) Condition: for type 3 regulated activity, the licensee shall not provide discretionary account services to clients.

   c) Margin financing is provided incidently to engage type 1 regulated activity under SFO.

2. a) The current licence was issued on 9 March 2005. Annual review of the licence status is required.

   b) Condition: for type 1 regulated activity, the licensee shall not engage in dealing activities other than those relating to corporate finance.

3. a) The current licence was issued on 25 January 2005. Annual review of the licence status is required.

   b) Condition: none.

4. a) The current licence was issued on 30 March 2005. Annual review of the licence status is required.

   b) Conditions: the licensee shall not hold client assets. The terms "hold" and "client assets" are as defined under the SFO. For type 9 regulated activity, the licensee shall not provide a service of managing a portfolio of futures contract for another person unless it is for hedging purpose only. For type 9 regulated activity, the licensee shall not conduct business involving the discretionary management of any collective investment scheme. The term "collective investment scheme" is as defined under the SFO.

5. a) The current licence with regard to the types 4 and 9 regulatory activities under the SFO was issued on 1 June 2005. The current membership in respect of the engagement in the long term (including linked long term) insurance was granted on 17 May 2005. Annual review of the licence and membership status is required.

   b) Conditions: (i) the licencee shall not hold client assets. The terms "hold" and "client assets" are as defined under the SFO; and

   (ii) the licencee shall only carry out the regulated activities of advising on securities and portfolio management of securities in relation to unit trusts and mutual funds. For type 9 regulated activity, the licencee shall not provide a service of managing a portfolio of future contracts for another person.

6. a) The current money lenders licence was granted to Celestial Investment (HK) Limited on 12 April 2007 for a twelve month period from 11 March 2007 to 11 March 2008.

   b) The current money lenders licence was granted to Celestial Finance Limited on 25 September 2007 for a twelve month period from 4 August 2007 to 4 August 2008.

   c) The current money lenders licence is subject to the conditions set out below:

   (i) the Chinese version of any advertisement issued or published by the money lender for the purpose of the money lender's business as a money lender must clearly show the Chinese characters "放債人牌照號碼" immediately followed by the number of the money lender's licence.

(ii) (a) the money lender and his debt collectors should not try to recover debts, whether directly or indirectly, from referees, friends or family members of the debtors (hereinafter collectively referred to as "the third parties") unless such third parties are in law indebted to him;

(b) the money lender should not unlawfully use or disclose information or personal data of the third parties to his debt collectors; and

(c) the money lender should not, while trying to locate the whereabouts of debtors, harass the third parties;

(iii) a distinct office, which is physically separated from any other business, must be allocated to the company for conducting money lending business; and

(iv) the books, records and documents of the money lending business of the company must be kept in the distinct office.

In addition to being licensed by the SFC under the SFO to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities, the Group's wealth management business unit, CASH Frederick Taylor, also advises on and provides its clients with other investment alternatives such as investment-linked products provided by insurance companies. The insurance component of the Group's wealth management business is regulated by a body of insurance brokers, that is, CIB.

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.

Celestial Securities is a Stock Exchange Participant of the Stock Exchange and Celestial Commodities is a Futures Exchange Participant of the Futures Exchange.

Up to the Latest Practicable Date, except for the disciplinary actions against the members of the Group and/or its employees during the Track Record Period as disclosed in "Litigations and Disciplinary Actions" of subsection under the "Business" section in this document, each relevant subsidiary of the Group being a licensed corporation under the SFO, or a participant of HKEx, or a holder of a money lender licence or a member of the CIB is in full compliance with the relevant rules/legislations/codes in performance of its relevant business and has not experienced any difficulties in relation to the renewal of its licences/certificates/approvals during the Track Record Period.

LITIGATIONS AND DISCIPLINARY ACTIONS

Litigations

The following set out the outstanding litigation, arbitration or claims involved by the Group of material importance.

(1) In 2003, Ka Chee Company Limited instituted a winding-up proceedings against Celestial (International) Securities & Investment Limited ("CISI"), a wholly-owned subsidiary of the Company (Hong Kong Case no.: HCCW 317/2005) for an amount of HK$1,662,598.31. A winding-up order was made by the court, a liquidator has been appointed to wind up CISI, and the winding-up procedure is still in progress. Details of the case are as follow:

i. Ka Chee obtained judgment against CISI being rent and outgoing charges due and owing by CISI to Ka Chee in respect of a property known as all those shops Nos. 208-210 on the second floor of Olympia Plaza, No. 255 King's Road, North Point, Hong Kong under a tenancy agreement made between Ka Chee as landlord and CISI as tenant on 23 April 2002.

ii. CISI failed to settle the judgment sum despite demanded by Ka Chee.

iii. CISI was wound up as it failed to settle the judgment debt to Ka Chee. The liability of CISI was ceased upon the making of the winding-up order and there is no need for the Group to bear any other liability.

CISI was a limited liability company and run into financial difficulty during the unprecedented unfavourable market environment in Hong Kong after "911" and "SARS". The Company confirms that as at the Latest Practicable Date, CISI was a dormant company and the winding up of CISI will not have any material impact to the operation of the Group.

(2) On 29 August 2002, Pang Po King Cannie ("Pang") filed a statement of claim for an amount of HK$2,893,561.16 less the realizable value of the 1,046,000 shares of Takson Holdings Limited (Stock code: 918) against Celestial Securities, alleging that Celestial Securities, without knowledge or authority of or instructions from Pang, had misused the account opened by Pang with Celestial Securities to deal in shares in Takson Holdings Limited. The Directors confirmed that the subject transactions were made with the knowledge of and authority from Pang. Settlement has been reached between Pang and Celestial Securities and no admission of liability was made by either party. The date for trial fixed from 8 to 11 and 14 January 2008 was vacated under the order of the Honourable Mr. Justice A. Cheung dated 7 January 2008. The total legal costs and other related expenses incurred and to be incurred by the Group in connection with the settlement of the claim are estimated to be approximately HK$4 million. The Directors confirmed that the settlement of the claim did and will not have material impact on the financial position of the Group.

Save as disclosed above, no member of the Group is involved in any litigation or arbitration or claims of material importance (i.e material in terms of each claim amount shall not exceed HK$150,000 and the total claims shall not exceed HK$500,000) and no litigation or arbitration or claim of material importance of the Company to be pending or threatened by or against any member of the Group as at the Latest Practicable Date. As at the Latest Practicable Date, the aggregate amount involved in litigation which was not disclosed above in which any member of the Group as plaintiff and defendant were approximately HK$176,000 and HK$30,000 respectively.

Disciplinary actions against members of the Group and/or its employees during the Track Record Period

Nature of action	Details
Disciplinary actions against Celestial Securities and its responsible officer, Mr. Kwan Pak Leung Horace ("Mr. Horace Kwan") for internal control failures on short selling by a client (20 July 2006)	The SFC reprimanded Celestial Securities and Mr. Horace Kwan, and fined Celestial Securities HK$21,000 and Mr. Horace Kwan HK$7,000 for internal control failures on intra-day short selling activities by a client. The disciplinary action followed an SFC investigation into the short selling activities conducted by a client of Celestial Securities who was a former staff member that placed short sell orders directly with dealers of Celestial Securities between 17 October and 11 November 2003. The SFC's investigation revealed that the written internal policies of Celestial Securities required account executives to check clients' balances before execution of their sell orders. However, Celestial Securities's actual practice also permitted dealers to execute clients' sell orders delivered by account executives first without checking clients' account information and input account information within 15 minutes after the orders were executed. The unclear administration of policy in Celestial Securities caused confusion to its dealers. As a result, the dealers in this case accepted the orders from the client without checking the account information immediately and Celestial Securities did not timely detect the short selling activities carried out by the client. The SFC found the following internal control weaknesses of Celestial Securities including: • its failure to put in place effective procedures to detect and prevent intra-day short selling; and • its failure to implement and maintain measures appropriate to ensuring compliance with the applicable law and codes issued by the SFC.

Nature of action	Details
Public statement which involved criticism on the Company for breach of the then Rule 17.15 and Rule 17.22 of the GEM Listing Rules (20 February 2006)	The GEM Listing Committee criticised the Company for breaching the GEM Listing Rules for the failure to disclose the amounts due from companies controlled by Mr. Kwan Pak Hoo Bankee, the Chairman of the Company and an executive Director, and from several other independent clients, which once individually exceeded the 25% threshold under the then Rule 17.15 of the GEM Listing Rules as at 31 December 2001 and 30 June 2002.
Disciplinary actions against Mr. Mak Ka Bo Alex, a former employee of the Group	The SFC suspended the license of Mr. Mak Ka Bo Alex for six months from 19 December 2007 to 18 June 2008, and fined Mr. Mak for HK$10,000 for misleading the SFC's investigators in providing answers during a market manipulation investigation interview. This disciplinary action followed Mr. Mak's conviction of misleading the SFC in August 2006 at the Eastern Magistracy. The disciplinary action was personal and the Group was not a subject under the investigation and the disciplinary action.

With regard to the short selling activities by a client of Celestial Securities which took place in late 2003, the Company admitted that there was internal control failure in relation thereto at that time. In order to strengthen the relevant internal control, the Group has promoted the use of Broker Supplied System (AE version) ("BSS") since the third quarter of 2006. Under BSS, if the account executives engaged by the Group would like to place any order to sell securities through the Group's trading platforms, BSS will disallow the account executives to place any sales order if there is insufficient quantity of the relevant securities in the clients' account. During the Track Record Period, as a result of the Group's effort to promote the use of BSS, the percentage of account executives using BSS improved from less than 50% to approximately 80%. Furthermore, the licensed account executives and dealers have been educated and reminded of due compliance with internal policies, regulatory requirement in respect of short selling from time to time by means of briefing, orientation, internal memo and annual seminars since July 2006.

As set out in the Company's announcement dated 14 May 2003, the Company admitted that it had overlooked its obligations under the then Rules 17.15 and 17.22 of the GEM Listing Rules to timely disclose the information regarding advances to entities. Once the Company was aware of the breach of the then Rules 17.15 and 17.22 of the GEM Listing Rules, it has strengthened the relevant internal control in various aspects. The corporate governance department of the Group, which is responsible for assisting the Directors in complying with the GEM Listing Rules, communicates with the relevant departments of the Group from time to time to update them on the threshold for disclosure requirements under the GEM Listing Rules in relation to advances to entities. Once advance to an entity exceeds the threshold, the corporate governance department will be informed and announcements will be made by the Company accordingly.

In addition, the corporate governance department also updates the other departments of the Company on the threshold for disclosure and/or approval requirements under Chapter 20 of the GEM Listing Rules in relation to advances or financial assistance from the Group to connected persons of the Company. Furthermore, pursuant to the approval by the independent Shareholders at the special general meeting held on 19 March 2007, the Company has entered into margin financing arrangement with certain connected persons of the Company. Details of the margin financing arrangement was set out in the section headed "Relationship with the CASH Group" of this document. Advances or financial assistance from the Group to connected persons of the Company should not exceed the threshold set out in the GEM Listing Rules or the Margin Financing Arrangement approved by the independent Shareholders, as the case may be.

The corporate governance department comprises (i) the company secretarial division with 3 staff (one is an associate of Institute of Chartered Secretaries and Administrators ("ICSA") and one is a student of ICSA) under the supervision of Ms. Luke Wing Sheung, the company secretary of the Company who is a member of the senior management of the Group and a fellow of ICSA, and has over 10 years of listed company secretarial experience, and (ii) the legal division with 1 staff (a solicitor in Hong Kong) under the supervision of a legal counsel (a solicitor in Hong Kong). The corporate governance department is responsible for ensuring the corporate governance of and compliance with the Listing Rules by the Group. The corporate governance department together with the compliance and risk management department update and remind the relevant departments of the disclosure obligations whenever new requirements are in place and new thresholds of the Group are revised based on the most updated accounts of the Group.

Internal memoranda relating to compliance update are issued by the Company and/or the licensed entities to the staff from time to time to remind them of any new regulatory compliance issue. In addition, training sessions with regard to compliance updates and products information are organised to refresh/train staff to be familiar with the relevant regulations.

As at the Latest Practicable Date, none of the subsidiaries of the Group and/or its employees is and/or is pending to be subject to disciplinary actions taken by or to be taken by the SFC, the HKEx, the Stock Exchange and/or any law enforcement authority in Hong Kong.

As at the Latest Practicable Date, the Directors are not aware of any review, examination and/or investigation (save for routine ones) that may be or have been conducted by the SFC to or against any members of the Group and/or any of their respective licensed person.