
BUSINESS OBJECTIVES AND FUTURE PLANS

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As a result of strong economic growth of the PRC in the past few decades, the size of the middle class of the PRC has expanded rapidly, and with the gradual liberation of RMB as one of the global currencies, there is a tremendous demand for wealth management services to help high net worth PRC individuals better allocate their asset portfolio and diversify investment risk. Our Directors believe that Hong Kong is well placed to become a wealth management centre to serve the demand for wealth management services from high net worth PRC individuals. Hong Kong’s strong and well-regulated financial sector, well established legal system, and its geographical location give Hong Kong a unique advantage to bridge the PRC and international market. It is expected that Hong Kong will become the offshore wealth management hub of the PRC in the future.

With the launch of Shanghai Connect and Shenzhen Connect, PRC institutional investors play an increasingly important role in the Hong Kong capital markets. We therefore anticipate there will be a strong demand for our services from of high net worth PRC individuals and institutional investors in the future. We plan to position our Group as an integrated securities broker and focus our resources to target these two groups of core clients. In the case of PRC institutional investors, we plan to target small to medium sized PRC asset management firms and hedge funds instead of large fund houses and insurance companies that are already well served by other financial institutions in Hong Kong.

We believe that high net worth PRC individuals will demand for (a) financing service for a leveraged investment return, (b) wealth management service with tailored professional advice, and (c) sophisticated asset allocation system to diversify their investment risk. We believe small to medium sized PRC institutional investors will demand for (a) in-depth research to provide future forecast and market intelligence, (b) corporate finance service to provide placing subscription opportunities, and (c) trading system with higher order execution quality.

Many of our peers are listed companies in Hong Kong and offer employee share options to their senior management, especially those with high calibre and industry expertise. To compete with these listed peers, our Directors consider the [REDACTED] is very important to enable us to recruit new talents and retain existing staff. For instance, we consider hiring a fund manager with good past performance is one of best way to attract new clients to join our asset management service. Most of these fund managers are already employed with good remuneration package and they would probably not leave their existing platforms without the offer of employee share options. We intend to use part of the [REDACTED] to enhance our asset management business. The [REDACTED] will be allocated to hiring experienced equity analysts to further enhance our research capability with the intention to deliver better investment performance. Therefore, we can attract more high-net-worth clients use our asset management services, expand our AUM, and hence management fee and performance fee income.

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To cater for the different needs of high net worth PRC individuals and institutional clients, we intend to (i) enlarge the capacity of our financing services, (ii) upgrade our portfolio management system (“PMS”) and order management system (“OMS”), (iii) engage in proprietary trading; (iv) expand our client network with a focus on high net worth and institutional clients, (v) enter into the corporate finance advisory business and resume the futures brokerage business, and (vi) enhance our research capabilities and asset management service. We also plan to engage in proprietary trading with the aim to increase returns on our investments by capturing low-risk opportunities while ensuring working capital sufficiency and protection of the principal. For further details of our business strategies, please refer to the sub-section headed “Business — Business strategies” in this document.

REASONS FOR THE [REDACTED]

Our Directors consider the [REDACTED] status can give us advantages such as (a) brand awareness and customer confidence; (b) recruitment and retention of professionals; and (c) additional funding for future development.

As a brokerage house with over 40 years of operations, we have accumulated a sizeable clientele and brand awareness among the local investors. At the same time, with in-depth understanding of the industry, our Directors recognise that the nature of the industry has been undergoing a thorough transformation with an increasing number of PRC investors commencing trading in the Hong Kong stock market.

New PRC investors tend to open their stock accounts with big banks or listed companies in Hong Kong with sound financial background. Our Directors believe that without a sound brand name, it will be difficult for our Group to effectively compete with big banks or listed companies for new or potential clients.

Our Directors understand that image and reputation is quite significant for a securities brokerage house or a financial institution in general. Being a listed brokerage house will also help bring greater transparency through quarterly financial reporting, higher standards of disclosure and stricter internal control. A transparent corporate image will potentially make it easier for our Group to gain trust from new clients when approaching them, allowing us to expand our clients base with lower costs and ultimately achieving economies of scale in our marketing.

In addition, Hong Kong has become a hub for corporate clients, high net-worth clients and small-mid-sized hedge funds to commence allocating assets and portfolio overseas. We have to upgrade from a traditional brokerage house and embrace the new trend in clients who possess relatively larger size of portfolio, require relatively larger size of margin finance and need more advanced IT trading platform and tailored investment services.

All of the above-mentioned customer needs have gradually changed the business model of brokerage houses in Hong Kong from simply providing a channel for trading securities to a capital intensive financial platform. Therefore, our business expansion plan needs funding to finance them, which our Directors believe will be achieved through the [REDACTED].

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Additionally, the requirements under the FRR as a measure of financial soundness of Hong Kong brokerage houses, also places certain constraints on their business expansion. The Directors believe that under the spirit of the FRR, “scale of operation and its expansion are decided by how much liquid capital a brokerage house has”. In this regard, the [REDACTED] from the [REDACTED] will certainly help the Group improve its liquid capital to enable its expansion plans including scale of deals or operations.

Our Directors believe that the [REDACTED] will therefore enhance our profile, strengthen our financial position and competitiveness, and provide us with additional capital to implement our future plans set out in the paragraph headed “Implementation plans” below.

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[REDACTED]

We estimate the [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] is fixed at low-end, mid-point and high-end of the [REDACTED] range stated in this document with and without exercising the [REDACTED] after deduction of [REDACTED] fees and commissions and estimated total [REDACTED] paid or payable by us in connection with the [REDACTED] are set out in the table below.

	Estimated net proceeds of the [REDACTED]		
	[REDACTED] of [REDACTED] per [REDACTED] (low-end of [REDACTED]) <i>HK\$ million</i>	[REDACTED] of [REDACTED] per [REDACTED] (mid-point of [REDACTED]) <i>HK\$ million</i>	[REDACTED] of [REDACTED] per [REDACTED] (high-end of [REDACTED]) <i>HK\$ million</i>
[REDACTED] not exercised	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] exercised in full	[REDACTED]	[REDACTED]	[REDACTED]

Assuming an [REDACTED] of [REDACTED] and the [REDACTED] is not exercised, we intend to use the [REDACTED] from the issue of [REDACTED] under the [REDACTED] which we will receive, for the following purposes:

- [REDACTED], or [REDACTED], will be used to enlarge the capacity of our financing services *(Note)*;
- [REDACTED], or [REDACTED], will be used for upgrading our PMS and OMS;
- [REDACTED], or [REDACTED], will be used for proprietary trading;
- [REDACTED], or [REDACTED], will be used to expand our client network with a focus on high net worth and institutional clients;
- [REDACTED], or [REDACTED], will be used for entering into the corporate finance advisory business;
- [REDACTED], or [REDACTED], will be used to enhance our research capabilities and asset management service;
- the remaining amount of [REDACTED], representing [REDACTED] of the [REDACTED] from the issue of [REDACTED] under the [REDACTED], will be used to provide funding for our working capital and other general corporate purposes.

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Note:

Upon the [REDACTED], margin financing and short term IPO financing would be financed by our internal resources and [REDACTED] earmarked for the margin financing business, which depending on demand may have an overall effect of reducing our existing bank borrowings and our borrowing costs. Our bank borrowings refers to available bank facilities of HK\$190 million used for our margin financing and short term IPO financing comprising of (i) certain overdrafts with interest charged at Hong Kong Prime Rate / Hong Kong Prime Rate + 0.5% per annum or HIBOR + 2.3% per annum and (ii) revolving term loans with interest charged at HIBOR + 1.9%/2.25% per annum based on 1 week tenor. Such facilities from Bank A matures on 6 October 2018 while facilities from Bank B is subject to review on 31 May 2018. For further details of our bank borrowings, please refer to the sub-section headed “Business - Our business model - (ii) Financing services - external bank borrowings” in this document.

According to current estimates, our Directors expect that the [REDACTED] from the issue of [REDACTED] under the [REDACTED] of [REDACTED], the cash in bank and on hand as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of our Company’s future plans up to the period ending 31 December 2020.

If the [REDACTED] is determined at the high end or low point of the indicative [REDACTED] range, the [REDACTED] from the issue of [REDACTED] under the [REDACTED] to be received by us is estimated to increase or decrease by [REDACTED] assuming the [REDACTED] is not exercised. The above allocation of the [REDACTED] to our financing services will be adjusted in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the indicative [REDACTED] range stated in this document. In the event that the [REDACTED] is exercised in full and based on the mid-point of the indicative [REDACTED] range, we estimate that we will receive additional [REDACTED] from the issue of additional new Shares of [REDACTED], deducting [REDACTED] fees and estimated expenses payable by us. The additional [REDACTED] received from the exercise of the [REDACTED] will be applied to our financing services.

The possible use of our [REDACTED] outlined above may change in light of our evolving business needs and conditions, management requirements together with prevailing market circumstances. In the event of any material modification to the use of the [REDACTED] as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required by the GEM Listing Rules.

To the extent that the net proceeds from the issue of [REDACTED] under the [REDACTED] are not immediately required for the above purposes, it is the present intention of our Directors that such [REDACTED] be placed in short-term interest bearing deposit accounts held with authorised financial institutions.

IMPLEMENTATION PLANS

The implementation plans for each of the six-month periods until 31 December 2020 for carrying out our business strategies are set out below, assuming the [REDACTED] is fixed at mid-point of the [REDACTED] range without exercising the [REDACTED].

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The following implementation plans set forth below are based on the current economic status and the assumptions as set out in sub-section headed “Bases and key assumptions” in this section. There is no assurance that our implementation plans will be implemented according to the estimated time frame or at all.

	From the [REDACTED] to 30 June 2018 <i>HK\$'000</i>	Six months ending 31 December 2018 <i>HK\$'000</i>	Six months ending 30 June 2019 <i>HK\$'000</i>	Six months ending 31 December 2019 <i>HK\$'000</i>	Six months ending 30 June 2020 <i>HK\$'000</i>	Six months ending 31 December 2020 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Enlarging the capacity of our financing services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Upgrading our PMS and OMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– PMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– OMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proprietary trading	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expand our client network with a focus on high net worth and institutional clients	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– marketing	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– hire staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Entering into the corporate finance advisory business	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Enhancing our research capabilities and asset management service	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– hire staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– set up public fund	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Working capital and other general corporate purpose	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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Bases and key assumptions:

The implementation plans are based on the following bases and key assumptions:

- there will be no material changes in the prospects of the financial services industry in general and the securities broking industry in particular;
- there will be no material changes in industry trends and investing patterns due to technological advancement or otherwise that render our services obsolete;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no change in the validity of the licenses obtained by us;
- there will be no significant changes in our business relationships with our major clients or suppliers;
- there will be no material changes in the existing applicable laws, policies or industry or regulatory treatment or in the political, fiscal, foreign trade or economic conditions in Hong Kong and other places in which our Group operates or intends to operate;
- there will be no significant changes in the interest rates or the currency exchange rates from those currently prevailing;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- the [REDACTED] will be completed in accordance with and as described in the relevant section
- our Group will not be materially affected by the risk factors as set out under the section headed “Risk factors”;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the sub-section headed “Implementation plans” above in this section; and
- our Group will be able to continue our operation in substantially the same way as it has been operating and there will be no disasters, natural, political or otherwise, which would materially disrupt our business or the implementation of our plans.