

MASTER THESIS FOR MSC AT MTEC DEPARTMENT

THE BUSINESS OPERATING ENVIRONMENT OF FOREIGN EXCHANGE BROKERAGE IN ASIA-PACIFIC REGION

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EXECUTIVE SUMMARY

This thesis paper is prepared as the investigation report for the internship work and master thesis writing at JDFX Technologies AG.

JDFX was founded in 2004 and was one of the first electronic participants in the FX market. JDFX quickly became well known for high frequency trading, high speed order routing and statistical arbitrage. As the FX market changed and became more efficient, JDFX decided to entirely focus on its core strength – trading technology.

The management of the company has solid confidence in the trading technologies it provides, in terms of high trading speed, tight spread and tailored user-friendly trading platform, and is willing to expand the company's business into the Asia-Pacific regions, which is seen to gain great importance nowadays.

As instructed by the company's CEO and CFO, the main purpose of the thesis is to collect and analyze the relevant information of Foreign Exchange market characteristics in various Asia-Pacific regions, which include Mainland China, Hongkong, Taiwan and South Korea. The gathered data are analyzed in several phases to abstract useful business information in preparation to assist the company's expansion plan into the target regions. Due to the time constraint and the amount of work involved, the markets of Japan, India, Singapore... etc are not covered.

For each of the individual regional market, first of all, the general business condition in respect to its political, economical, social and technological factors are examined to determine the basic feasibility of conducting the business.

Second, major competitors which are in the same or similar business areas as JDFX Technologies AG—namely Foreign Exchange Margin Trading business—are examined and compared against each other to determine the level of competition in the regions.

Third, according to the expansion plan directed by the CEO of JDFX Technologies AG, the feasibility of Multi-layer Marketing approach in each region is examined, which also includes the analysis on current competition of existing Introducing Brokers and White Label Partners.

Last, the IPO condition of each region is briefly examined and compared to determine the pros and cons to be listed in each regional stock exchange.

As the summarization of the main findings, the four regions inspected in the thesis are all important market segments for the company. Considering the capacity and demand of each region, Mainland China is recommended to be the starting point of the expansion. However due to the local policy restrictions, the company shall gain advantage by setting up headquarter in Hongkong, and from there, to cover the whole Chinese speaking regions. Hongkong is also an ideal place for the company to start an IPO application if necessary.

The Business Operating Environment of Foreign Exchange Brokerage in Asia-Pacific Region

The thesis is prepared by Wang Wei, in conjunction with the undergoing project at JDFX Technologies AG. It is co-supervised by Prof. Dr. Didier Sornette in MTEC Department at ETH Zurich, as well as the CTO of JDFX Technologies AG--Mr. Clive Diethelm.

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1 BUSINESS OPERATING ENVIRONMENT OF FOREIGN EXCHANGE BROKERAGE IN MAINLAND CHINA



1.1 PEST ANALYSIS

1.1.1 POLITICAL FACTORS

POLITICAL STABILITY

Since the founding of the nation in 1949, especially after the reform and opening up in 1978, the government of the People's Republic of China (PRC) has strengthened its political stability through years of continuous economical growth and improvement of people's living standards. China has established diplomatic relations with more than 160 countries, as well as actively participates and contributes in various global matters. The nation is gaining its political importance, not only within the East-Asia region, but also more and more to a global scale.

Currently, there are two main threats concerning the nation's safety and possibility of warfare, which are the sovereignty issues with Taiwan and Tibet.

The Taiwan sovereignty has been one of the major concerns of the Chinese government ever since the country was founded. Due to historical reasons, Taiwan is considered part of China by the Chinese government, while certain proportions of the politicians and citizens of Taiwan hold the contrary opinion. The island of Taiwan was isolated from Mainland China for years with no direct flight or shipping line, many families were separated across the Taiwan Strait due to the immigration restrictions. The negotiation for reunification is long and painful for people on both side of the strait, and it is still on-going.

The situation was worsened for the past 8 years when Mr. Chen Shuibian—who holds the opinion of making Taiwan an independent country—was elected the president of Taiwan, predictions and rumors were told at that time there would be warfare between Mainland China and Taiwan to settle the issue, however it never actually occurred.

The situation met the historical turning point in March 2008 when Mr. Ma Yingjiu was elected as the new president of Taiwan. Direct links of mail, transport (air&sea) and trade has been established and legalized. The free flow of investments and capital provides opportunities for economical growth on both sides of the strait, as well as signifies that instead of being a possible battleground, Taiwan would rather work with Mainland China towards prosperity. Especially under the current financial crisis, to deal with unemployment and economic downturn have become the top priorities for the Taiwan administrators.

Under a very likely assumption of Mr. Ma Yingjiu to continue his presidential term until 2016 will provide Taiwan a stable period of growth, as well as eliminate the possibility of warfare for the time being—if not permanently. The economical prospective of the coming years is positive.

The Tibet sovereignty has also been a long-lasting issue since the beginning of the 20th century. The historical complication made it a sensitive topic both to the east and the west. Despite the reasons for the recent conflict in Tibet surrounding areas, the small disturbance is fully within the controlling power of the Chinese government, the possibility for large scale warfare to happen is extremely unlikely.

Also considering the small amount of population as well as the dispersed nature of population distribution in Tibet, the possible contribution of the province of Tibet to the company's overall performance and profitability in China is relatively small. As summarized in the CNNIC (China Internet Network Information Center) 23rd report dated Jan. 2009, Tibet covers hardly 0.5% (470,000/298,000,000) of all the internet users in China.

POLICY RESTRICTIONS

Foreign Exchange Margin Trading was once quite popular in Mainland China in the year 1993, when China was still in the initial phase of market economic reforms. However, lack of financial and supporting regulatory led to the negative effect of the margin trading been shown. Most of the 'investors' at the time encountered numerous losses which resulted in

legal cases and even distorted the financial order of the society. Soon margin trading was banned by the Chinese government in 1994.

Since the beginning of the new millennium, as the Internet penetrates into Chinese people's daily life, Online Margin Trading becomes increasingly popular, the Foreign Exchange margin trading in Mainland China, while remains in the 'grey' zone, starts to enjoy the prosperity.

As the foreign exchange reserve of China climb to new highs and the government control gradually relaxes, the increasing foreign exchange incomes of the Chinese nationals demand for a sophisticated investment channel. The major players of foreign exchange transactions—national banks, restricted by the regulations, can only issue limited financial products. The unsatisfied Chinese forex investors are therefore attracted to engage in 'grey' margin trading using foreign accounts, risking the safety of their fund. As foreign laws may not keep these investors well protected, while local laws does not protect this kind of investment which was considered 'illegal'.

At the end of year 2004, the China Banking Regulatory Commission (CBRC) permitted CMC—a British foreign exchange market maker—to set up its first representative office in Beijing. The license given by CBRC to CMC is only for the training on Foreign Exchange Margin Trading; however the initial plan of the foreign companies like CMC to attract investors through training, then open trading accounts with them overseas was quite successful, and made numerous profits.

Since the beginning of year 2008, China Minsheng Banking Corp. was permitted to be the first market maker among Chinese banks to offer Foreign Exchange Margin Trading, soon followed by Bank of China and Bank of Communication. However hardly half a year later, the CBRC issued an acknowledgment to temporarily terminate the permission.

While the future of legalization of foreign exchange margin trading in Mainland China remains uncertain, the operations of foreign firms in the 'Grey' zones continues, despite the influence from the current financial crisis. The Chinese people's desire for wealth is not anticipated to be diminishing. Rather than losing the foreign reserves that these investors hold to foreign firms, it is reasonable to predict that the Chinese government will let loose the restrictions on margin trading, so to attract investments to national banks, which in turn, gives an opportunity for foreign firms to compete with them 'under the sun'.

The Foreign Exchange Option Trading, on the other hand, is permitted by the Chinese government. The service is provided by several national banks, with higher charges in terms of spread and transaction costs, and suffers the problem of lacking real-time price feed.

TAX POLICY

The Chinese government has decided to reform the national economic setup since the late 1970s. Start from 1980, China established several special economic zones which enjoy certain tax privileges and preferential treatments on other policies and regulations.

According to the income tax law of China, the income tax of foreign investment enterprise is normally 30%. However foreign financial institution that operates in Special Economic Zones (SEZ) with more than US\$10 million capital investment can enjoy a reduced rate of 15%. If the intended operating period exceeds 10 years, further reduction is available to exempt the tax of the enterprise for 1st profit-making year, and reduce the tax rate further to 7.5% for the following 2 years.

For enterprise with foreign investment which reinvests its share of profit directly into the same enterprise, or uses the profit as capital investment to establish other enterprises with foreign investments, on the condition of not operating less than 5 years, shall receive tax rebates of 40% on the sum re-invested. 100% rebate on corporate income tax is possible when the re-investment is in export-oriented or advanced technology enterprises.

For withholding tax, the dividend remitted to foreign shareholder receives complete exemption, while the interests, rental, leasing payment, capital gains, or franchise fees bear the withholding tax at 10%. Further reduction is possible depending on Double Taxation Agreements signed between China and the foreign country specified after payment of 5% business tax.



Fig 1.1.1.3 China Special Economic Zones

ANTI-TRUST LAW AND RULES FOR MERGER & ACQUISITION

At the beginning of 2005, new Antitrust Law was adopted by the national People's Congress in China. An Antitrust Office within the Ministry of Commerce (MOFCOM) was established to prohibit monopolistic practices and maintain fair competition. It is already responsible for enforcement of M&A Law, however its experience with antitrust is limited. Together with another agency called State Administration for Industry and Commerce (SAIC), Chinese government is on the way towards greater antitrust regulation of private enterprises, being foreign or domestic firm in nature. It is however unclear the extent to which the two agencies' jurisdiction overlap with each other.

There are several laws apply to M&A. The M&A rules became effective on April 12, 2004, MOFCOM and SAIC share authority to review the investment. It is directed to investigate investments which may cause a market monopoly and hamper fair competition.

For offshore M&A transactions, it may be subject to notification if:

- One party owns assets over RMB 3 billion in China
- One party has more than RMB 1.5 billion annual sales in China
- One party's market share has reached 20%
- The post-transaction market share will reach 25%
- The acquiring person will have a post-transaction equity holding in over 15 domestic enterprises—directly or indirectly.

For onshore M&A transactions, additional rules apply that if the acquirer has merged or acquired more than 10 enterprises in related industries in China within 1 year, the acquirer is then subject to investigation. The authorities also preserve the right of investigation when it is considered as necessary. The evaluation is done on a case-by-case basis, and exemptions may occur when the transaction

- Improves market condition for fair competition
- Leads to restructuring of a loss-making enterprise and continued employment
- Leads to the importation of advanced technologies and management skills
- Improves the environment

The M&A rules currently do not apply to the acquisition of foreign-invested enterprises which are already controlled by foreign investors.

1.1.2 ECONOMIC FACTORS

ECONOMIC GROWTH

Since the founding of the nation, the Chinese economy has been through moderate growth, setbacks, and rapid take offs. Several milestones can be distinguished along the process; these may include the Farm Privatization and opening up of Shenzhen Special Economic Zone (SEZ) in the late 1970s, as well as the establishment of Shanghai SEZ in 1992 and entry into WTO in late 2001.

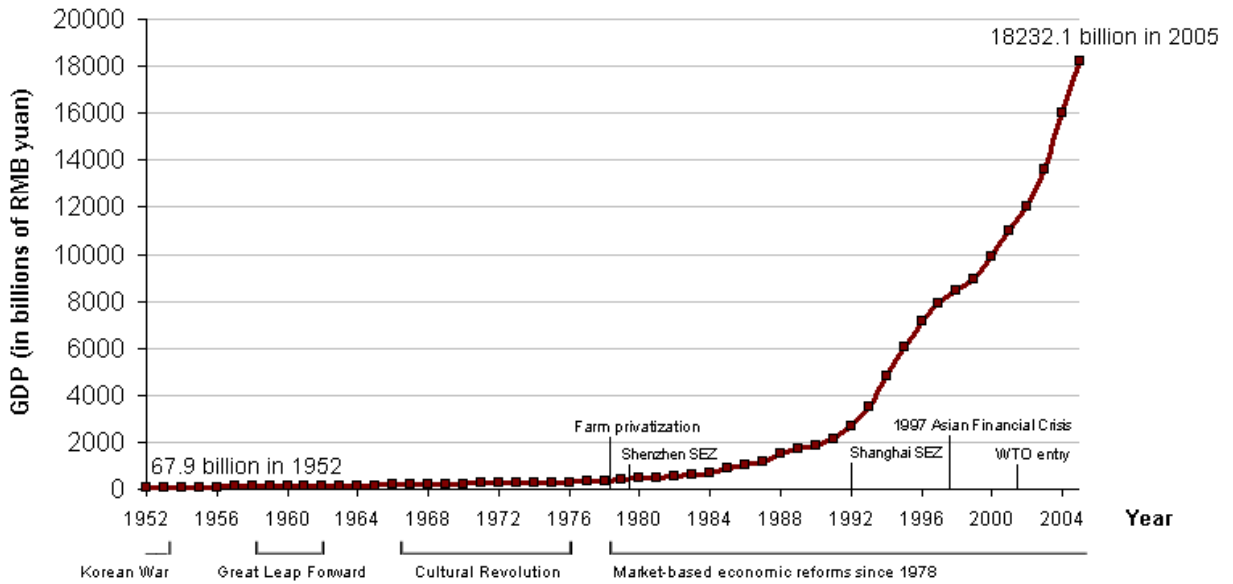


Fig 1.1.2.1.1 China GDP since 1950

In 2008, the total GDP of China is about 27,935 billion RMB (3,990 billion USD), No. 4 of the world. GDP per capita ranks No. 106 in the world.

The economy of China, since took off in the early 1990s, has continued to grow at an average rate of roughly 7 to 9 percent per year.

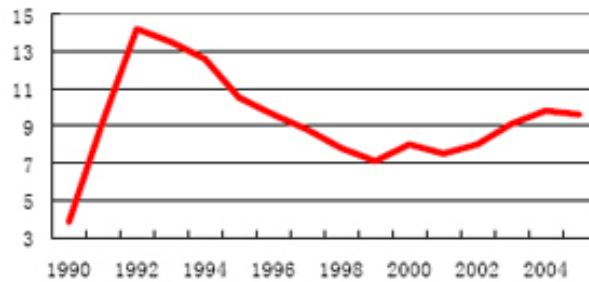


Fig 1.1.2.1.2 China GDP Growth Rate since 1990

In the year 2008 which has just past, affected by the world-wide financial crisis, China's GDP grew at a reduced rate of about 9%, compared to a world average of 3.7%. The contribution of Chinese economy to the world growth in 2008 amounts over 20%.

It is expected by the Chinese Academy of Science (CAS) in year 2009 the GDP growth rate of China will approximately be 8.3%, predictions from China National Economic Research Institute (CNERI) states the GDP growth rate of China for the following 15 years will be maintained in between 6 to 9 percent yearly.

FOREIGN EXCHANGE RESERVES

The foreign exchange reserves signify the potential a country possesses towards forex transactions and trading.

For a long period of time, the foreign exchange reserve of China was below 1 billion USD. Slow increase was seen after the economic open-up in 1980s, reserve increased to approximately 10 billion USD. Enter the 1990s, alongside with the take-off of China's economy, reserves climbed rapidly. Already in early 2006, China has surpassed Japan to become the country with the most foreign exchange reserves. To date, the amount is approaching 2,000 billion USD.

There are already debates on whether the government should distribute half of the foreign exchange reserve to the people and allow free flow of foreign currencies. Although the debate is not yet coming to a conclusion, nor any policy is seen to be following, the potential of the foreign exchange market in China is regarded as being quite substantial.

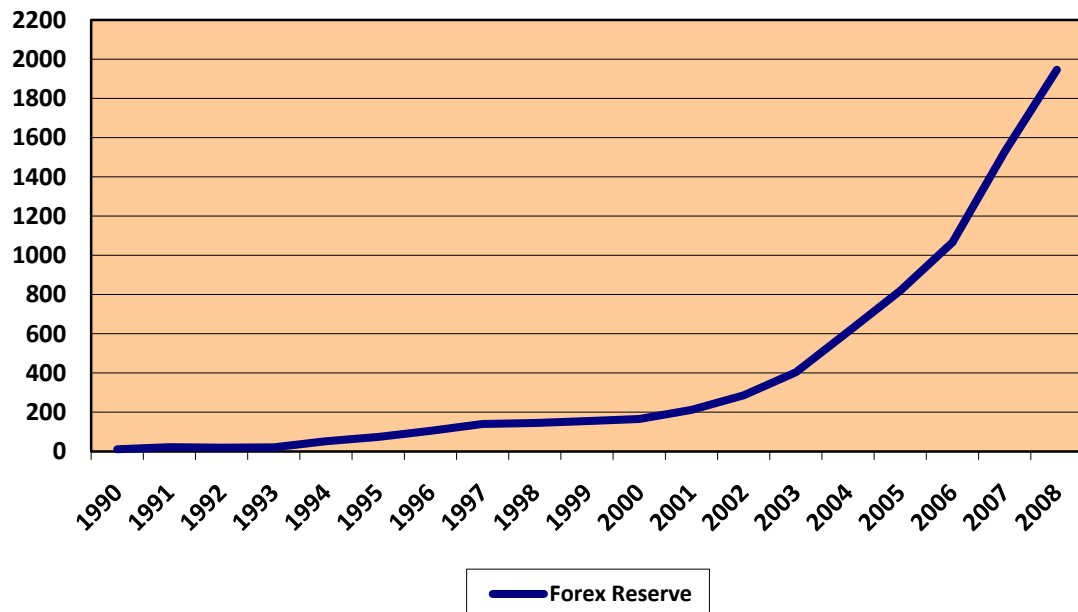


Fig 1.1.2.2 China Foreign Exchange Reserve 1990—2008 (in Billion USD)

INFLATION RATE

The inflation rate is generally measured by Consumer Price Index (CPI). Since the beginning of the new millennium, the trend of China consumer price inflation is basically increasing.

In year 2008, China experienced CPI growth rate of 5.9%. Predictions from Chinese Academy of Social Sciences (CASS) indicate a possible declining trend in year 2009 and the following few years to come.



Fig 1.1.2.2 China Consumer Price Inflation

STOCK MARKET AND REAL-ESTATE MARKET

The Chinese Stock Market, established in the early 1990s, is not yet mature, therefore more sensitive to foreign influences despite the isolated nature of Shanghai 'A' Shares. After 4 years of consolidation since the high-tech bubble burst originated from year 2001, at the beginning of 2006, the market started to recover. The Shanghai Stock Exchange Composite Index (SSEC) was doubled in a year's time (1,161 to 2,275). The growth was accelerated in 2007 and reached its ceiling in October, when SSEC hit historical high on 6,124.

Shortly after that, the market went through a steep downturn. Within one year the market dropped by more than 60%, the loss of market value was significant. Considering the global financial situation, a long consolidation is expected by most professionals and investors rather than a fast recovery to the historical high.

Since the beginning of year 2009, the SSEC retraced back to the peak at 3478 on August 4 from recent low at 1665 which was formed in October 2008. Within 10 months, the market index was doubled. The strong economic prediction of China despite the effect global financial crisis had sustained the growth. For the following two months since August, the market experienced a 25% drop in value within a month, and is now seen to stall in between 2,800 to 3,000 for the time being.

For the prediction of the two bubble burst in October 2007 and August 2009, interesting insights has been provided by Dr. Didier Sornette in one of his recent work 'Bubble Diagnosis and Prediction of the 2005-2007 and 2008-2009 Chinese stock market bubbles'. The classic behavioral finance problem of market bubble prediction, which was believed to be rather difficult to accomplish, has gain exceptions with several ex-ante predictions by applying the log-periodic power law (LPPL) model on the Chinese stock market bubble, as well as US real-estate bubble and oil peak.

The Real-Estate Market, which is influenced by the overall economic situation and the investors who share the same interest in the stock market, basically went through the same story. The housing prices however are not expected to drop as rapidly as the stock market downturn, but is expected to weaken in the following few years.

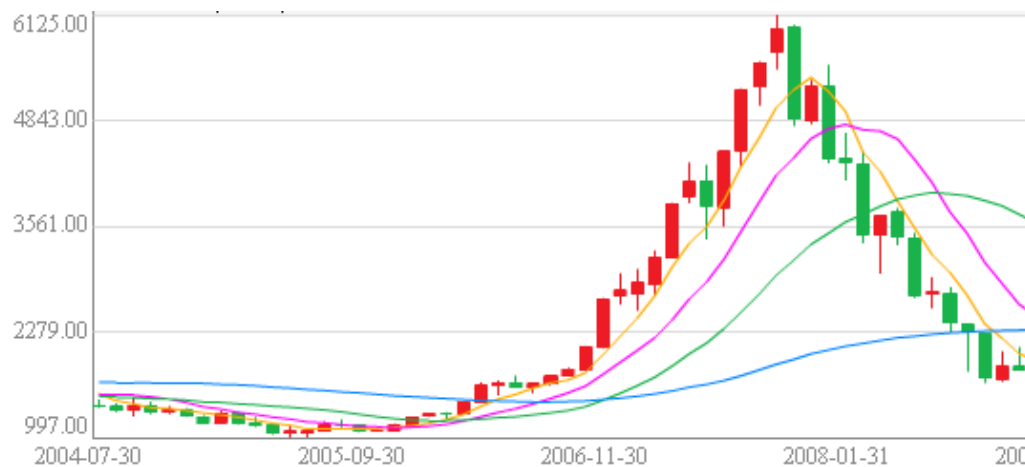


Fig 1.1.2.3 Shanghai Stock Exchange Composite Index Monthly Graph 2004—2008

EXCHANGE RATES

Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

Since July 2005, the Chinese government started to allow Chinese Yuan--Renminbi (RMB) to float against other foreign currencies. Upon release of the policy, on the first trading day the

exchange rate of USD to RMB was raised from 1:8.1 to 1:7.6. The recent exchange rate has been stabilized around 1:6.8. In terms of exchange rate on CHF to RMB, it is raised from 1:6.4 in 2005 to currently 1:5.8.

The floating exchange rate among RMB and other foreign currencies is not yet 'totally free', meaning the market demands are not yet the only deterministic reason for exchange rate fluctuations. The government control still plays an important role, and ranging regions of RMB exchange rates are confined to a narrow span.

Considering the projected economic growth of China in the following years, it is more likely the value of RMB will sustain, even if not raise much further, great currency devaluation is quite a small probability scenario.

INTEREST RATES

The interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands.

The deposit and loan interest rates of RMB, the deposit interest rate of foreign currencies, as well as housing loan interest rates are summarized in the following tables.

The loan interest rate of foreign currencies is at the discretion of each individual financial institution regarding the financial market interest rate fluctuation, cost of capital and associated risks, therefore no fix rates are available for reference.

Category	Yearly Interest Rate (%)
Current Deposit	0.36
Time Deposit	
3 Months	1.71
6 Months	1.98
1 Year	2.25
2 Years	2.79
3 Years	3.33

5 Years	3.60
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Table 1.1.2.5.1 RMB Deposit Interest Rate 2009

Category	Yearly Interest Rate (%)
Short Term Loans	
Within 6 Months (incl. 6 months)	4.86
6 Months to 1 Year (incl. 1 year)	5.31
Medium and Long Term Loans	
1 to 3 Year(s) (incl. 3 years)	5.40
3 to 5 Year(s) (incl. 5 years)	5.76
5 Years and Above	5.94

Table 1.1.2.5.2 RMB Loan Interest Rate 2009

Individual Housing Provident Fund Loan	Yearly Interest Rate (%)
Within 5 Years (incl. 5 years)	3.33
Above 5 Years	3.87

Table 1.1.2.5.3 Individual Housing Provident Fund Loan Interest Rate 2009

Currency	Current	1 Month	3 Months	6 Months	1 Year	2 Years
USD	0.0500	0.2500	0.5000	0.7500	0.9500	1.0000
GBP	0.1250	0.1575	0.8050	0.9760	1.0760	1.0760
EUR	0.1000	0.7500	1.0000	1.1250	1.2500	1.2500
JPY	0.0001	0.0100	0.0100	0.0100	0.0100	0.0100
HKD	0.0100	0.1500	0.4000	0.5000	0.7000	0.7500
CAD	0.0400	0.2165	0.3915	0.5100	0.7315	0.7315
CHF	0.0001	0.0100	0.0100	0.0100	0.0100	0.0100
AUD	0.2375	1.2400	1.1650	1.1225	1.1350	1.1350
SGD	0.0001	0.0100	0.0100	0.0100	0.0100	0.0100

Table 1.1.2.5.4 Foreign Currencies Deposit Interest Rate 2009

1.1.3 SOCIAL FACTORS

CULTURAL ASPECTS

The time zone (GMT +8) which China is located provides the Chinese investors a unique advantage for foreign exchange trading compares to European or American clients. Although China covers large geographical area, due to government regulations, all parts of China—from east coast to west inland—all share the same time zone.

Since the Asian trading session—which is the normal working hours of Chinese people—is not considered as a major session in the 24-hour forex market due to its relative inactivity and smaller trade volume compare to the European and U.S. trading sessions. The Chinese investors can therefore have the liberty to work in normal hours and start trading in European or U.S. session at their spare time. The conflict of day-time job and trading is basically not a concern for the Chinese traders.

Typical Chinese forex traders have the time table as follows: deal with their day-job in normal working hours from 09:00 to 17:00, then start forex trading after work from 17:00 to 24:00, which covers most of the European session and the first half (morning) of the U.S. session—most volatility occurs during this period of a day. This kind of agenda also leaves them sufficient time for rest and leisure which support the continuity of their trading on a daily basis.

EMPHASIS ON SAFETY

The emphasis on safety in terms of foreign exchange trading mainly concerns the choice of broker, which involves the company's reputation and client account insurance.

Currently the most favorable brokerage firms are the ones under the supervision of National Futures Association (NFA), US Commodity Futures Trading Commission (CFTC), or British Financial Services Authority (FSA). Since the supervision of NFA, CFTC or FSA ensures the separation of client funds and the broker's fund, as well as provide insurance on client accounts in case of bank bankruptcy.

The websites of these regulatory bodies provide detail information regarding the history, registration materials, violation logs, warning or punishment logs...etc, where the investors can get a more comprehensive view of the company.

Other countries that have regulatory bodies for foreign exchange trading are Switzerland, Australia, New Zealand, Japan and Norway. However the levels of supervision in these countries are relatively weaker, information regarding the brokerage firms is not easily available on the Internet, therefore the qualifications are more difficult to assess.

Since the major information channel for Chinese investors regarding online forex margin trading is the Internet, for those who are already taking the risk to trust their fund with foreign banks and brokers, regulatory credibility is the first thing they look for when selecting a forex broker.

For such reasons, the favorable location of the brokers mainly concentrates in U.S., U.K., and Hong Kong. The forex dealers in HongKong are under the supervision of Securities and Futures Commission (SFC). Provide the historical relations between HongKong and U.K., as well as the local nature of HongKong being part of China, Chinese investors feel more secure to trust their fund with HongKong firms.

CAREER ATTITUDES

The pressure of job hunting for college graduates has been severe for many years. It is expected in year 2009 over 6 million fresh graduates will join the competition for limited positions nationwide. While the nominal unemployment rate in China is 4.6%, the actual rate

is approximately 8% when taking into consideration the jobless graduates and laid-off workers.

Under such cut-throat competition, many graduates try to expand their career perspective by joining brokerage firms and get clients for them in exchange for commissions, especially in year 2006 and 2007 when the Chinese stock market was hot. This kind of job could be officially or unofficially, full-time or part-time, and regarded as an alternative source of income.

POPULATION GROWTH AND AGE DISTRIBUTION

The population growth and age distribution affects the strategic decisions on both the client base and the availability of the workforce.

The 'baby boom' generated in the 1960s and early 1970s are aging currently, also caused by significant fertility decline and increase in life expectancy. It is expected that within the next 30 years till the number of elderly people in China will increase considerably.

The age distribution of current population is shown as follows:

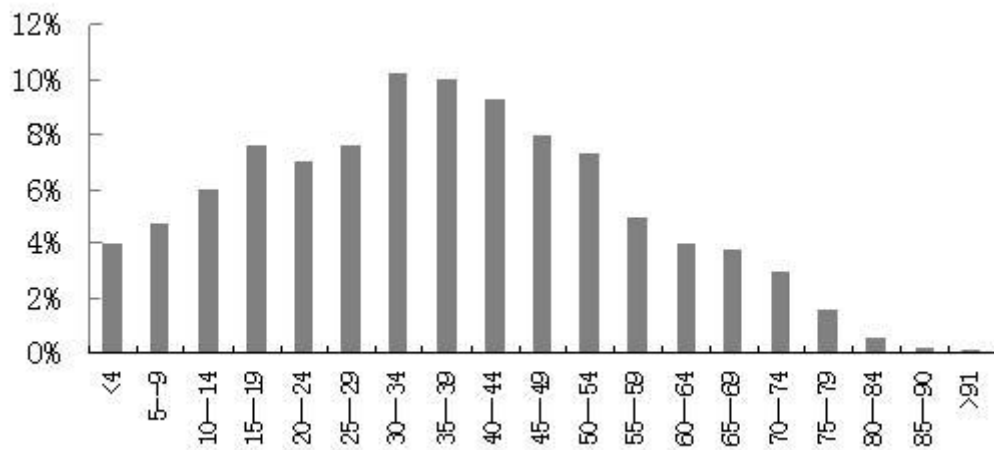


Fig. 1.1.3.4.1 Age Distribution of the Population of China

The population change from 1950 till now, as well as the projected change till 2050 is shown in the following graph:

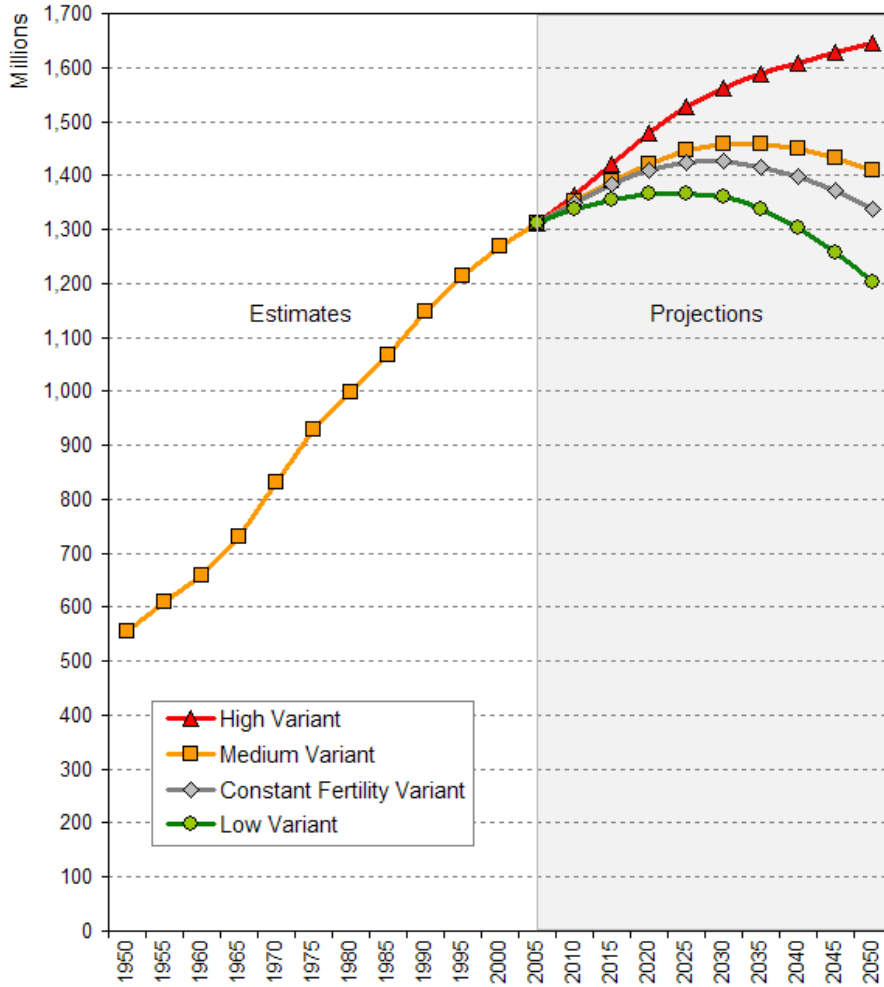


Fig. 1.1.3.4.2 Population of China

The distribution of population across the country varies significantly among different provinces. Generally speaking, population is more concentrated on the south and east part of China, while relatively less concentrated in the north, especially in the west part of China. The population density is given in the following graph:

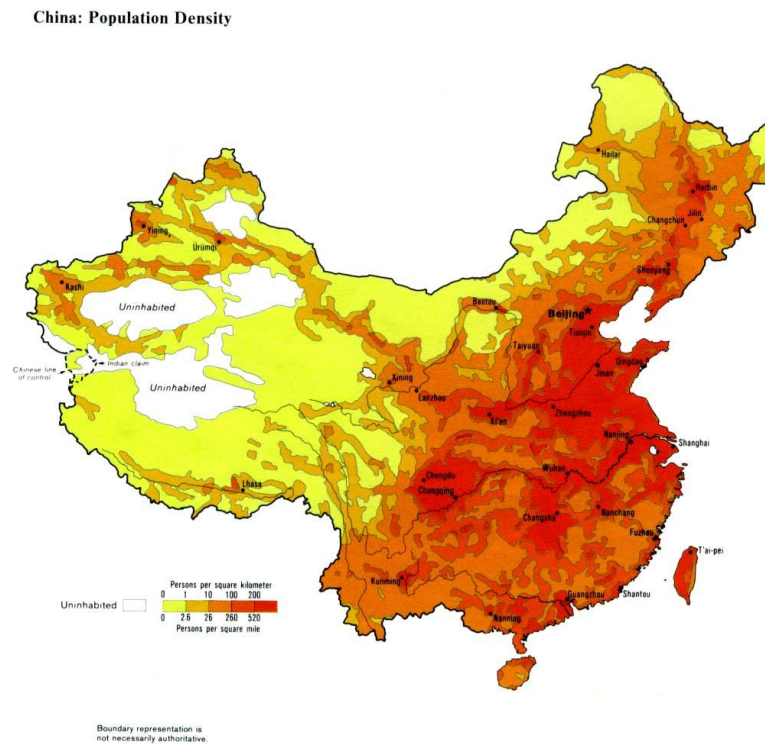


Fig. 1.1.3.4.3 China Population Density

INTERNET USER PROFILES

Consider the Internet-based nature of the online forex margin trading business; the most relevant client base is from the existing and potential Internet users. The analysis of Internet user profile serves as critical fundamentals in strategic decision making.

By the end of year 2008, the number of Internet users in China had reached 298 million, a proportion of 22.6% of the whole Chinese population. The yearly increase compared to 2007 is 41.9%. Despite the rapid growth, due to large population base of China, the Internet penetration rate of 22.6% only ranks No. 87 in the world, although the absolute number of users is already the largest even by mid-2008.

The gender distribution of Internet users in China is basically equal. The age structure is slightly changing, dominated by young people between 10-30 years old.

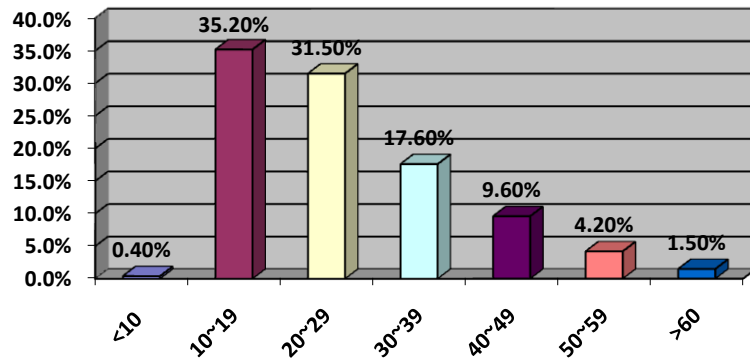


Fig. 1.1.3.5.1 Age Distribution of Internet Users in China

The absolute majority of the Internet users are the students, which is 33.2%. Another 30 to 40% is made up by enterprise and government employees, as well as technicians in various specialized fields of work.

The income distribution shows a concentration in the lower income band which is below 3,000 RMB per month, about 87% of the Internet users belongs to this income group. The detail breakdown is as follows:

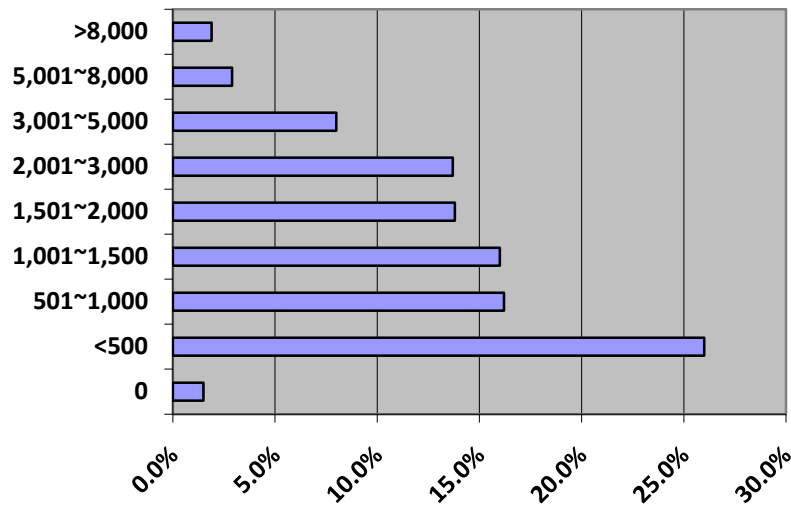


Fig. 1.1.3.5.2 Income Structure of Internet Users in China

In terms of educational level, the Internet in China is increasingly popularized among people with lower levels of education.

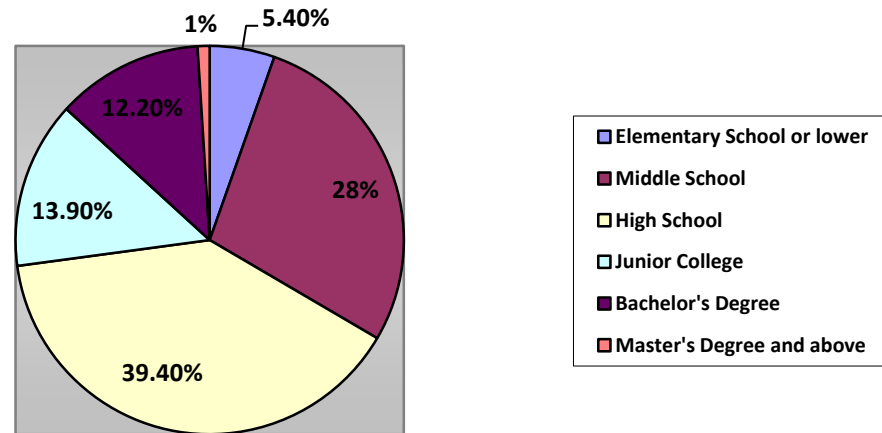


Fig. 1.1.3.5.3 Educational Level Distribution of Internet Users in China

1.1.4 TECHNOLOGICAL FACTORS

R&D ACTIVITY

The R&D activities in the forex industry mainly concentrate on the innovation of platform for individual/institutional traders and brokerage firms, as well as comprehensive corporate website for client support.

For brokerage firms that have already set foot in the 'grey' zone of Chinese forex margin trading, the major concerns for Chinese investors when choosing among their platforms are mainly:

- **Stability:** stable performance is required during normal and spike trading hours.
- **Speed:** fast transaction speed to ensure set strategies being carried out as planned.
- **Slippage control:** control slippage to the promised extend as advertised.
- **Connectivity:** little or no downtime in regular trading hours.
- **User-friendliness:** visually pleasing layout, user-friendly function support for different type of traders ranging from scalpers to long-term investors.

- **Charting functionality:** availability of general graphical analysis functions including trend lines, Fibonacci...etc. Better yet to support ‘trade from chart’ directly.
- **Maximum number of currency pairs traded:** comprehensiveness of the currency pairs allowed to trade at the same time on one platform allows the client to better diversify his/her portfolio, or to satisfy different risk.
- **Support of mini/micro lot transactions:** most clients, especially from China, start small with several hundred dollars only, for a serious forex trader to realize his/her strategy on a trading platform, small transaction lot is necessary.
- **JAVA, webpage and mobile trading compatibility:** the capability of trading platform to support various operating systems as well as provide the ‘trade-as-you-go’ mobility to traders is regarded as additional proof of the company’s credibility, as well as financial and technical strength.
- **Multi-language support:** certain proportion of the Chinese traders is not highly educated, or do not have the competency in foreign languages. Considering the historical monopoly of the Chinese language in Mainland China, it is an absolute must to have Graphical User Interface (GUI) available in Chinese for the trading platform to stand out among others, or at least, not falling behind.
- **Dealing-desk:** traditional market makers use to have human controlled dealing desk, which is regard as obsolete and inefficient, it is the current user preference not to choose or to abandon brokers which are still implementing manually controlled dealing desks. There is a clear trend towards highly efficient automated dealing-desk, or even better—without dealing-desks.

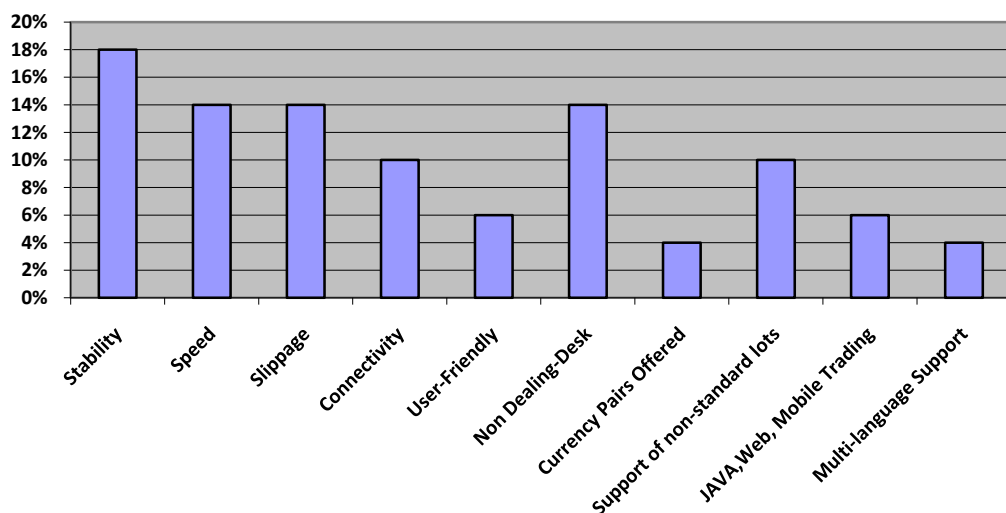


Fig. 1.1.4.1 Survey Result on Factors Concerned for Platform Comparison

A survey is conducted on some of the popular forex forums in China to determine the ranking of these factors. The result may be biased due to small sample size; however the outcome still represents the general opinions of forex traders when choosing a platform among brokers.

According to the results, the ranking of the influencing factors can be categorized into 5 tiers.

Tier 1: Stability

Tier 2: Speed, Slippage, Non Dealing Desk

Tier 3: Connectivity, Support of Non-Standard Lots

Tier 4: User-friendly, Support of JAVA-Web-Mobile Trading

Tier 5: Currency Pair Offered, Multi-Language Support

Since the Internet is the major marketing tool for most brokers, the quality of the corporate website is a crucial influencing factor for investors to make their choices among different firms. User-friendly websites with adequate information regarding the company, as well as comprehensive trading guidance can stimulate the traders' interest and develop customer loyalty.

Beyond just introducing the company's profile, platform features, margin & spread...etc, a comprehensive website may also include trading signals, technical and news analysis, online charts and forums.

TECHNOLOGY INCENTIVES

Enabled by the Internet, online forex trading depends largely upon the connectivity infrastructure in order to penetrate into a regional market. The penetration rate of 22.6% of China in year 2008 still yields great potential for future expansion.

The majority of the Internet users are connected with desktop or laptop computers, with a ratio of approximately 3:1. About 40% of the mobile phones used in China are connected to the Internet, and this number is expected to grow rapidly in the following years as the availability of 3G technology increases throughout China. Among all, about 1.4% of the users are connected via PDA devices.

The difference in occupation affects the terminals people use to connect to the Internet. Managers tend to connect via laptops, while employees use mainly desktop computers. The students on the other hand have the obvious tendency towards mobile connections.

Over 90% of the Internet users are connected via broadband. There are 33% dual-users who also have connection with slower speed, mainly mobile Internet. Only 9.4% of the Internet users are solely connected via mobile.

The proportion of the Internet users who participate in online trading of stocks is 11.4% in year 2008, affected by the financial crisis and crash of the stock market; this number is less than in year 2007, down by roughly 4 million users.

BARRIERS TO ENTRY AND OUTSOURCING

The government regulation is currently the major barrier to entry. Most global players can only rely on the Internet as the major promotion channel. The recent industry practice is to have representatives in major cities to offer consulting and educational services, while client transactions take place on dedicated servers outside Mainland China. Some firms even have their customer service offshore instead of onshore. Yet for such reasons, remote competitions result in absence of monopoly in the forex trading market. No significant barriers exist to drive following competitors out of market.

To develop business in China, some brokerage firms choose to outsource the operations within China to local Introducing Brokers (IB) to promote and get clients for them. By doing so, foreign brokerage firm strategically avoided the governmental regulation problem, while being able to achieve greater penetration into the market.

However rumors and stories about misconduct of IBs are also spreading over the Internet. Some of the IBs are contracted without much screening due to lack of responsibility to care about the Chinese investors whom are not yet protected by law in any form when engage in forex margin trading with foreign brokers. Some IBs are solely dedicated to frequent trading on clients' behalf to earn commissions, or even worse, gamble against the clients with cheating methods on their platform to get the client to bankruptcy as soon as possible in order to put the clients' money into their own pocket. Their short-term gain is at the expense of the home company's reputation and market image.

1.2 SWOT ANALYSIS FOR JDFX TECHNOLOGIES AG

The SWOT Analysis for JDFX Technologies AG in the general Forex market place is as follows:

Strength

- Reputation of Swiss bank signifies experience, credibility and financial strength.
- Cutting-edge technology advantage on trading and risk management platforms outruns other competitors in the market.
- Technological leadership hard to imitate.
- Corporate culture being flexible and inspiring.
- Strong on R&D in technological backbone.

Weakness

- Newly formed company has less credibility compare to early market entrants, which may hinder consumer choices when comparing different brokerage firms.
- Vulnerable to technology outruns of competitors.

Opportunity

- A developing market in China, in terms of both the enabling technology infrastructure, and client availability.
- Merger & Acquisition with local firms may give reputable representations from both local and international perspectives.
- Regulation restrictions may put all competitors on the same starting line. No competitor has superior channel of promotion or monopoly market power.
- Tax preferential policies for foreign enterprises.

Threats

- Unclear about future direction of governmental policy on forex margin trading.
- Bad reputation of existing IBs may create negative market image that hinders the promotion of company's products and services.
- Cut-throat competition makes consumers quite sensitive to prices. Possibility of price war with competitors on thin margins.
- Exposure to international nature of trade, currency fluctuations may affect the company's profit. Costs and margins are not stable over long periods of time.

1.3 MAJOR COMPETITOR ANALYSIS

Since no local brokerage firms in China are allowed to operate in forex trading, the competitors are either local banks in China or international brokerage firms.

1.3.1 NATIONAL BANKS IN CHINA

For forex margin trading, neither local brokers nor local banks are permitted to conduct this kind of business. As mentioned in section 1.1.1.2, permission was once granted to several reputable local banks in China in year 2008, but suspended shortly after due to the fact that over 90% of the clients were in loss. This fact sent a message to the government agencies that 'the Chinese investors are not yet ready for this kind of financial instrument.'

For forex option trading, only several local banks are permitted to engage in operation. This includes Bank of China (BOC), China Construction Bank (CCB), and China Merchants Bank (CMB). The services these banks provide are relatively limited compare to mature option market overseas and costs (spread) are generally higher.

For example, BOC and CCB require clients to perform transactions at the counter in regular bank business hours, which is considered as quite inconvenient and inefficient compare to services offered by foreign firms. CMB however provide online trading features for 24 hours per day, but still suffers the problem of large spread. The spread gets even wider during market spikes, sometimes to an unacceptable extend. The spreads were seen as large as hundreds of pips during last year (2008)'s financial crisis.

There are also other reasons why forex option trading is not as popular as margin trading in China.

- Knowledge required for trading options is more complicated than for margin trading: a large proportion of the traders in China are not highly educated, and not comprehensive in complex forex knowledge.
- The threshold for enter the market is higher with banks: the up-front funding requirement is generally much higher than with foreign brokerage firms.
- Leverage offered by banks is lower than margin trading brokers: maximum leverage offered by banks is less than 1:50, while most brokers offer leverage above 1:100, or even to 1:500.
- Real-time trading capability: banks in China provide prices with reference to world's major banks; there is a general lag between the price available to clients and the real price.

For such reasons, although forex option trading service is offered by banks for years, it is not getting much popular among general Chinese investors.

1.3.2 FOREIGN FOREX BROKERAGE FIRMS

Some 20 to 30 international brokerage firms remotely operate the forex margin trading business in China. These are mainly firms from U.S., U.K., and Hong Kong. A short summary and comparison of the well-known firms are as follows:

(1) CMS (Capital Market Services), <http://www.cmsfx.com>

Platform	VT
Spread	2-5 pips

Funding Methods	Bank wire, Check, PayPal, bps
Account Types	Standard (100K) , Mini (10k)
Currency Pairs	19
Maximum Leverage	1: 400
Lowest Opening Balance	200 USD
Regulation	CFTC, NFA (NFA ID: 0313199)
Multilingual Service	English, Chinese, Japanese, Spanish, Arabic, Russian

(2) IBFX (Interbank FX), <http://www.ibfx.com>

Platform	MT4
Spread	2-5 pips
Funding Methods	Bank wire, Check, PayPal
Account Types	Standard, Mini, Micro(1k) and Nano(0.1k)
Currency Pairs	28
Maximum Leverage	1: 400
Lowest Opening Balance	0
Regulation	CFTC, NFA (NFA ID: 326091)

Multilingual Service	English, Chinese, Japanese, Spanish, Portuguese
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(3) FXCLUB, <http://www.fxclub.com>

Platform	ExpressFX, ClassicFX
Spread	0, Commission 0.4 USD/1k lot (only for profitable trade)
Funding Methods	Bank wire, Credit Card, Check, PayPal
Account Types	Standard, Mini, Micro
Currency Pairs	22
Maximum Leverage	1: 100
Lowest Opening Balance	10 USD
Regulation	CFTC, NFA (NFA ID: 0358265)
Multilingual Service	English, Chinese, Russian, German, Spanish, French, Turkish, Hebrew, Farsi

(4) FXCM (Forex Capital Markets), <http://www.fxcm.com>

Platform	MT4, FX Tradingstation, Java, Activetrader (Web)
Spread	2-5 pips

Funding Methods	Bank wire, check, Credit Card
Account Types	Standard, Mini, Micro
Currency Pairs	30
Maximum Leverage	1: 400
Lowest Opening Balance	25 USD
Regulation	CFTC, NFA (NFA ID: 0308179)
Multilingual Service	English, Chinese, Russian

(5) FXDD (FX Direct Dealer), <http://www.fxdd.com>

Platform	FXDD Trader, MT4, mobile
Spread	2-5 pips
Funding Methods	Bank wire, check, PayPal, Credit Card, BPS
Account Types	Standard, Mini, Micro
Currency Pairs	20
Maximum Leverage	1: 200
Lowest Opening Balance	250 USD
Regulation	CFTC, NFA (NFA ID: 0397435)
Multilingual Service	English, Chinese, Russian, Japanese, Spanish,

Portuguese, German, French

(6) FXSOL (FX Solutions), <http://www.fx solutions.com>

Platform	GTS, web, mobile
Spread	3-5 pips
Funding Methods	Bank wire, check, PayPal, Credit Card
Account Types	Standard, Mini, Micro
Currency Pairs	28
Maximum Leverage	1: 400
Lowest Opening Balance	250 USD
Regulation	CFTC, NFA (NFA ID: 0312620)
Multilingual Service	English, Chinese, Spanish

(7) MGFOREX (MG Financial), <http://www.mgforex.com>

Platform	DealStationFX (JAVA), mobile
Spread	3-5 pips
Funding Methods	Bank wire, check, Credit Card, PayPal
Account Types	Adjustable unit size

Currency Pairs	12
Maximum Leverage	1: 100
Lowest Opening Balance	500 USD
Regulation	CFTC, NFA (NFA ID: 0308808)
Multilingual Service	English, Chinese, Spanish, Japanese, Russian, German

(8) FOREX (GAIN Capital Group), <http://www.forex.com>

Platform	FOREXTrader, JAVA, HTML, Wireless; MT4
Spread	3-5 pips
Funding Methods	Bank wire, check&eCheck, Credit&Debit Card
Account Types	Standard, Mini
Currency Pairs	37
Maximum Leverage	1: 200
Lowest Opening Balance	250 USD
Regulation	CFTC, NFA (NFA ID: 0339826)
Multilingual Service	English, Chinese, Russian

(9) CMC (CMC Markets), <http://www.cmcmarkets.com.cn>

Platform	Marketmaker
Spread	3-4 pips
Funding Methods	Bank wire, Credit Card
Account Types	Standard, Mini
Currency Pairs	70
Maximum Leverage	1: 100
Lowest Opening Balance	2,000 USD
Regulation	ASIC, NFA (NFA ID: 0293966)
Multilingual Service	English, Chinese

(10) Saxobank, <http://www.saxobank.com>

Platform	SaxoTrader, Web, Mobile
Spread	3-5 pips
Funding Methods	Bank wire
Account Types	Standard, Mini
Currency Pairs	145+
Maximum Leverage	1: 100
Lowest Opening Balance	2,000 USD

Regulation	FSA (FSA ID: 207519)
Multilingual Service	English, French, German, Spanish

(11) EFX Financial, <http://www.efxfinancial.com>

Platform	EFX Trader (ICTS), JAVA
Spread	2-3 pips
Funding Methods	Bank wire, Check, Credit Card
Account Types	Standard, Mini
Currency Pairs	25
Maximum Leverage	1: 100
Lowest Opening Balance	500 USD
Regulation	NFA (0392053)
Multilingual Service	English

(12) ACM (Advanced Currency Markets), <http://www.ac-markets.com>

Platform	Java, Flash, Web, Mobile
Spread	3-4 pips
Funding Methods	Bank wire, PayPal, Credit Card

Account Types	Standard, Mini
Currency Pairs	27
Maximum Leverage	1: 100
Lowest Opening Balance	2,000 USD
Regulation	Swiss Federal Department of Finance
Multilingual Service	English, French, German, Italian, Russian, Chinese, Japanese, Greek, Polish, Portuguese, Turkish

(13) MIG Investments, <http://www.migfx.ch>

Platform	MIG Trading Station (MT4), Mobile
Spread	2-3 pips
Funding Methods	Bank wire, Credit Card
Account Types	Standard, Mini
Currency Pairs	30+
Maximum Leverage	1: 200
Lowest Opening Balance	5,000 USD
Regulation	Swiss Federal Department of Finance

Multilingual Service	English, French, German, Italian, Russian, Chinese, Japanese, Greek, Polish, Portuguese, Turkish
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(14) Marketiva, <http://www.marketiva.com>

Platform	Streamster
Spread	2-4 pips
Funding Methods	Bank wire, WebMoney, Liberty Reserve, E-Dinar
Account Types	Trading size unrestricted
Currency Pairs	17
Maximum Leverage	1: 100
Lowest Opening Balance	0
Regulation	Financial Services Commission-BVI
Multilingual Service	English, Chinese

(15) MB Trading, <http://www.mbtrading.com>

Platform	MT4, MBT Navigator
Spread	1-2 pips, 0.5 USD/10,000 trade

Funding Methods	Bank wire, Check
Account Types	Standard, mini
Currency Pairs	28
Maximum Leverage	1: 100
Lowest Opening Balance	500 USD
Regulation	CFTC, NFA (ID: 0315389)
Multilingual Service	English, Chinese

(16) OANDA, <http://www.oanda.com>

Platform	FXTrade
Spread	1-4 pips
Funding Methods	Bank wire, Check, PayPal
Account Types	Trade size unrestricted
Currency Pairs	30+
Maximum Leverage	1: 50
Lowest Opening Balance	1 USD
Regulation	CFTC, NFA (ID: 0325821)
Multilingual Service	English

(17) Dukascopy, <http://www.dukascopy.com>

Platform	SWFX (WEB&JAVA)
Spread	0.5-1 pip
Funding Methods	Bank wire
Account Types	Standard
Currency Pairs	21
Maximum Leverage	1: 100
Lowest Opening Balance	25,000 USD
Regulation	Association Romande des Intermediaires Financiers (ARIF)
Multilingual Service	English, Chinese, French, German, Russian, Spanish, Japanese

(18) Alpari, <http://www.alpari.co.uk>

Platform	MT4
Spread	2-5 pips
Funding Methods	Bank wire
Account Types	Standard, mini, micro
Currency Pairs	29

Maximum Leverage	1: 500
Lowest Opening Balance	200 USD
Regulation	FSA (448002), NFA (0379678), CFTC
Multilingual Service	English, Chinese, Russian

(19) IB (Interactive Brokers), <http://www.interactivebrokers.com>

Platform	Trader Workstation, Mobiletrader, Webtrader
Spread	0.5-1 pip, commission 0.1 to 1 pip
Funding Methods	Bank wire, Check
Account Types	Minimum: ¼ Standard lot size
Currency Pairs	40
Maximum Leverage	1: 40
Lowest Opening Balance	5,000 USD
Regulation	FSA (208159), NFA (0258600)
Multilingual Service	English, Chinese, French, German, Russian, Spanish, Japanese

(20) PFG, <http://www.pfgchina.com>

Platform	GTS
Spread	3-5 pip
Funding Methods	Bank wire
Account Types	Standard, mini, micro
Currency Pairs	100+
Maximum Leverage	1: 400
Lowest Opening Balance	500 USD
Regulation	NFA (0232217), CFTC
Multilingual Service	English, Chinese

(21) ODL Securities, <http://www.odlmarkets.co.uk>

Platform	MT4
Spread	3-4 pips
Funding Methods	Bank wire, Credit Card, Check, Debit Card
Account Types	No standard size restriction
Currency Pairs	80+
Maximum Leverage	1: 100
Lowest Opening Balance	2,000 USD

Regulation	FSA (171487), CFTC, NFA(0330396)
Multilingual Service	English, Russian, Japanese

(22) GFT, <http://www.gftforex.com>

Platform	Dealbook 360, Web, Mobile
Spread	3-5 pips
Funding Methods	Bank wire, check, PayPal, Debit/Credit Card
Account Types	Standard, mini
Currency Pairs	40
Maximum Leverage	1: 400
Lowest Opening Balance	250 USD
Regulation	CFTC, NFA (0279553)
Multilingual Service	English, Japanese

(23) HotSpot FX, <http://www.hotspotfx.com>

Platform	FX ECN interface & MT4 support
Spread	0-1 pip

Funding Methods	Bank wire, Check
Account Types	Standard
Currency Pairs	50+
Maximum Leverage	1: 50
Lowest Opening Balance	7,500 USD
Regulation	NFA (351580), CFTC, FSA (230605)
Multilingual Service	English, Chinese

Due to the fact that Forex margin trading is not yet legalized in China, no statics is available currently on the market share that each of these brokers possesses. The effect of different spread policies cannot be assessed yet in the Chinese local market.

1.4 MULTILAYER MARKETING ANALYSIS

The concept of Multilayer Marketing for forex brokerage generally refers to Introducing Brokers (IB) and White Label Partners (WLP).

While most of the forex brokerage firms tend to extend their client base with both approaches, considering the regulatory restrictions in Mainland China, majority of the firms choose to operate with IBs. The IBs can be individual persons or companies. Contracts are signed between brokers and IBs, but the IBs are not recognized as official employees of the firms. IBs mainly concentrate on develop the client base for the brokers, and receive commissions base on number of clients and trade volumes.

A general study covers the 23 brokerage firms mentioned in Section 1.3.2 is conducted to gain a basic idea of the current operating status of their IBs in Mainland China. The study contains the major IBs that can be found, their website, office location, and communication methods with the clients.

The Business Operating Environment of Foreign Exchange Brokerage in Asia-Pacific Region

Column	IB/WL/Representative Office	Location	Communication Methods	Remark
CMS	http://www.camase.com http://www.cmschina.com http://www.fis168.com http://fx8.cn/ http://www.17ib.cn http://cms.fxunion.com/ http://www.hope888.net/ http://www.forexstar.com.cn/ http://www.fxib.cn/ http://www.ht131.com/	Beijing, Shanghai	Website, QQ, MSN, Email, Mobile, 24-hour Fix-line/toll-free number, Office, forums	Early entrant of Chinese market, large amount of IBs available
IBFX	http://www.igofx.cn/	Beijing	Office, Website, Toll-free number, Email, Fax, Forum	Strict IB selection
FXCLUB	http://cnforex.com http://www.forexclub.biz/cn/	Beijing	callback, office, Email, Website	Aggressive IB Compansation Plan
FXCM	http://www.fxcmasia.com http://www.fxcm-chinese.com/ www.17ib.cn http://www.hongyufx.com/ http://waihui.yiji.com/ http://www.cmbro.com/ http://www.fxmm.cn/ http://www.fxib.cn/ http://www.waihuiqun.com/ http://www.fxc.com.cn/ http://www.hope888.net/ http://www.fx-1688.com/ http://www.sd178.com/ http://www.qizhengint.com/ http://www.fx998.cn/ http://www.0533178.com/ http://www.globalfutures.com.cn/	HongKong	Office, Fax, Mobile, MSN, Website, QQ, toll-free number, Email, forums, callback	Early entrant of Chinese market, large amount of IBs available
FXDD	http://www.hszgfx.com/ http://www.0533178.com/ http://www.sd178.com/ http://www.waihui-kaihu.com/ http://www.fxdd-forex.com/ http://www.hongyufx.com/	Shanghai	Website, QQ, Fax, fix-line/toll-free number, Email, forums, office	
MBTF	http://www.jqfx.com http://www.xinhuihx.com/	Changzhou Hangzhou	Office, Email, Fix-line/toll-free number, Fax, Website	Most attractive ECN for small investors
OANDA	NO IB POLICY	N/A	N/A	Excellent reputation among traders
Dukascopy	http://www.fortune-free.com/	Guangzhou Dongguan	Office, Email, Fix-line, Website	Good reputation for large funds
Alpari	http://www.0533178.com/ http://www.qizhengint.com/ http://www.fxc.com.cn/ http://www.waihui-kaihu.com/ http://www.alpariasia.com/ http://www.51cta.com/	Shanghai	Office, toll-free number, Email, forums, Website	
IB	http://www.hylt.net	HongKong	Forums, Website	Good reputation for large funds
PFG	http://www.pfgchina.com/NewPFG/ http://pfgchina.zhan.cn.yahoo.com/ http://www.27ta.cn/ http://www.whb99.com http://www.fx998.cn/ http://www.51cta.com/	Shanghai Weifang	Website, QQ, Fix-line/Toll-free number, Fax, Email, Forums	
ODL	http://www.0533178.com/ http://www.hongyufx.com/ http://www.sd178.com/ http://www.sdint.net/ http://www.waihui-kaihu.com/ http://www.forex-rich.com/ http://www.51cta.com/	Shanghai	fix-line/toll-free number, MSN, Email, Fax, Website	

The Business Operating Environment of Foreign Exchange Brokerage in Asia-Pacific Region

FXSOL	www.17ib.cn/ http://www.fxib.cn/ http://www.fxmm.cn/ http://www.fxsolasia.com/ http://www.fxcs.com.cn/ http://www.fx0755.com/ http://www.waihui-kaihu.com/ http://www.hongyufx.com/ http://www.0533178.com/ http://www.fx998.cn/ http://www.globalfutures.com.cn/	Shanghai	Office, Fax, Mobile, MSN, Website, QQ, toll-free number, Email, forums	
MGFOREX	http://www.fxmm.cn/	Nanning	Office, fix-line, mobile, fax, QQ, website, email	
FOREX	http://www.fxib.cn/ http://www.qizhengint.com/	N/A	Website, QQ, Email, MSN, fix-line	
CMC	http://www.cmcmarkets.com.cn/	Beijing	Office, Email, fix-line, Website	First foreign brokerage firm to set up representative office in China in 2004 Many known IB ethics issues
SAXOBANK	Representative Office	Beijing	Office	Special Authorization by CBRC against underground forex margin trading First foreign financial institution to receive approval by both divisions of CBRC to operate in China By not competing, but WL with Chinese banks, it's operation in China is well welcomed.
ACM	http://cn.ac-markets.com	N/A	Website, forum, fix-line, Email	
MIG	http://www.migfx.com/cn/ http://www.fxwell.com/	N/A	QQ, Email, mobile, Website	well-known but few IB available
Marketiva	http://fxexpert.spaces.live.com/ http://hi.baidu.com/linyan000709 http://www.marketiva.cn/ http://www.marketiva.ac.cn/ http://hi.baidu.com/marketiva http://www.marketiva.net.cn/ http://www.cnmarketiva.com/ http://www.marketiva8.com/ http://www.marketiva.org.cn	N/A	Website, QQ, Email	Aggressive IB expansion
GFT	http://www.gftinvestment.com/ http://fx518.net/	HongKong Shanghai	Office, Email, Fax, Fix-line, mobile, QQ, MSN, Website	
HotSpot	N/A	Beijing	Office	Good reputation for large funds Only take institutional clients

Most of the IBs currently operating in Mainland China are individuals that engage in forex trading. They take the opportunity to become the brokers' IBs to extend their source of income, while get better trades due to compensation.

As for the IBs' websites, only a few of them are professionally designed—which still, lack of sophisticated supporting functions compare to their home offices' websites. Since most of the IBs are individuals, they mainly promote by blogs or forums, some of them have stand-alone websites, but poorly designed.

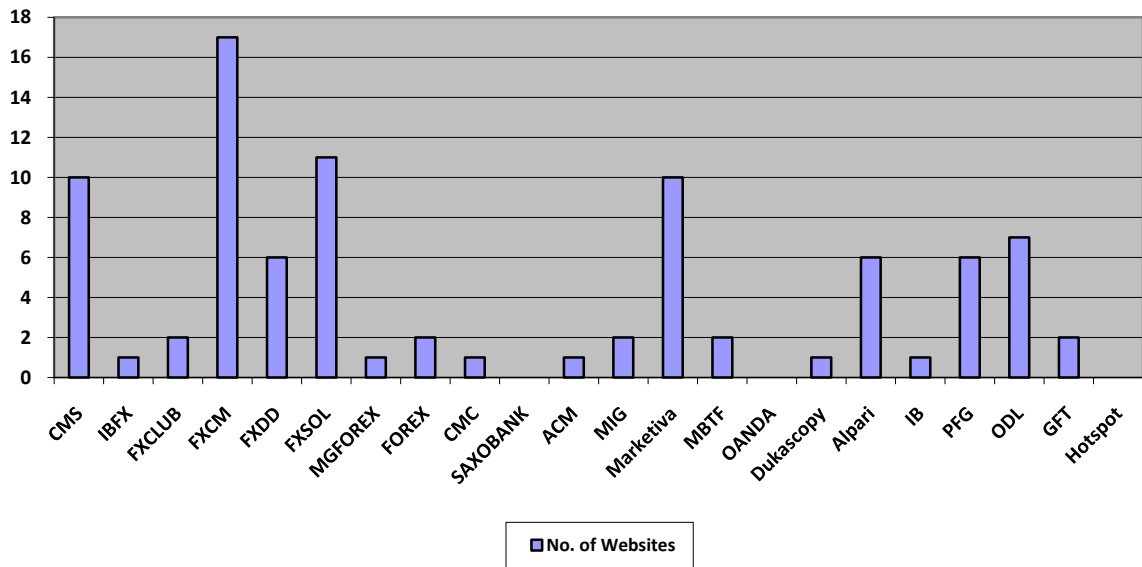


Fig. 1.4.1 Number of IB Websites in Mainland China for Different Firms

The number of the IB’s websites for each firm is shown in the graph below; these websites are somehow ‘easy’ to find—which is crucial for an IB to stand-out among competitors, since not much newbie forex traders are willing to spend considerable amount of time and effort just to find an IB.

As seen in the graph above, the firms which entered the market early and have been operating for relatively longer period have larger amount of IBs operating for them. These are generally also the firms that possess more clients than others.

While most of the firms or IBs choose to establish their office in Beijing or Shanghai, 5 out of the 23 (22%) firms have no office at all, and 5 out of 23 (22%) have multiple offices (incl. representative office and IB’s office). A few of them have offices outside Beijing and Shanghai, such as Hongkong, Guangzhou, Hangzhou, Dongguan, Weifang and Nanning.

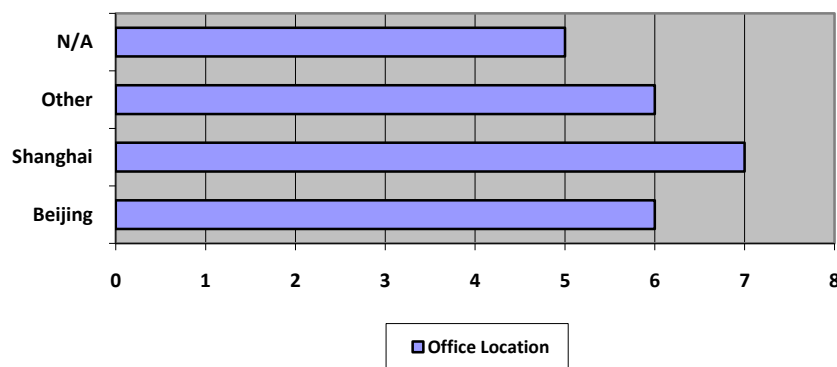


Fig. 1.4.2 Office Locations of IBs/Representatives in Mainland China

Due to the ‘underground’ nature of the margin forex trading in Mainland China, the communication methods between IBs and clients are mainly through the Internet; this involves Websites, Emails, Forums, MSN and QQ (popular online chatting tool, developed by a Chinese company in Shenzhen). Some of the brokerage firms and institutional IBs have representative offices that allow face to face communication, and also provides fix-line number, mobile phone number, or even toll-free number for customer service. A summary of the different communication methods the firms utilize is shown in Figure 1.4.3.

As the given data shows, setting up office and communicate with clients by websites and emails are the major communication channel chosen by most firms and IBs. Online chatting and interactive forums also play important role in terms of gaining awareness and reputation among traders. Fix-line phone numbers and toll-free numbers as customer service represent stable firm image, and should be utilized if applicable.

Another view of the data can be established on the different communication methods utilized by each firm including its IBs. It is a general case that the more communication channels it provides, the more awareness it has among traders. This is elaborated in Figure 1.4.4.

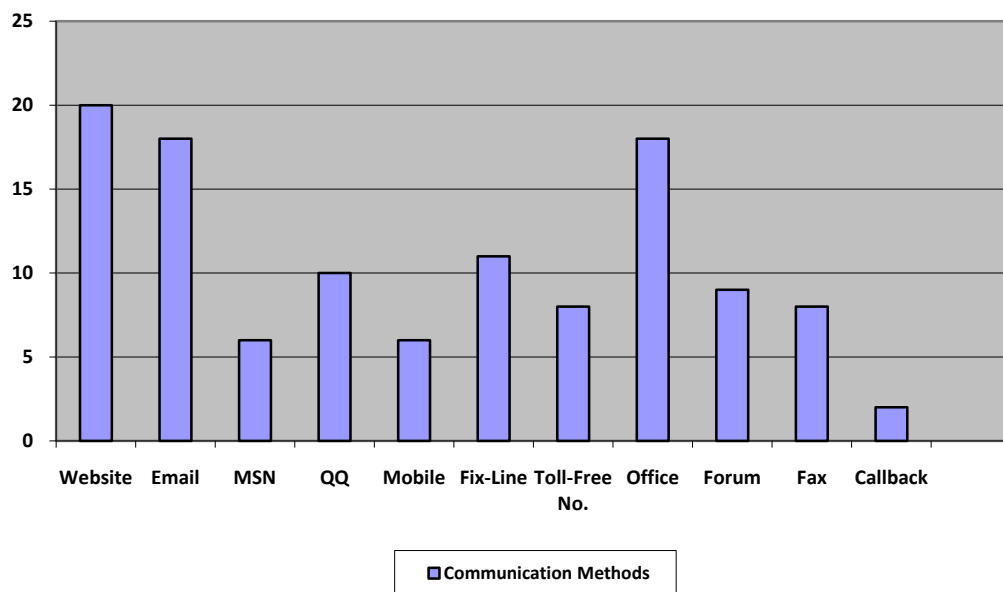


Fig. 1.4.3 Communication Methods Utilized in Mainland China

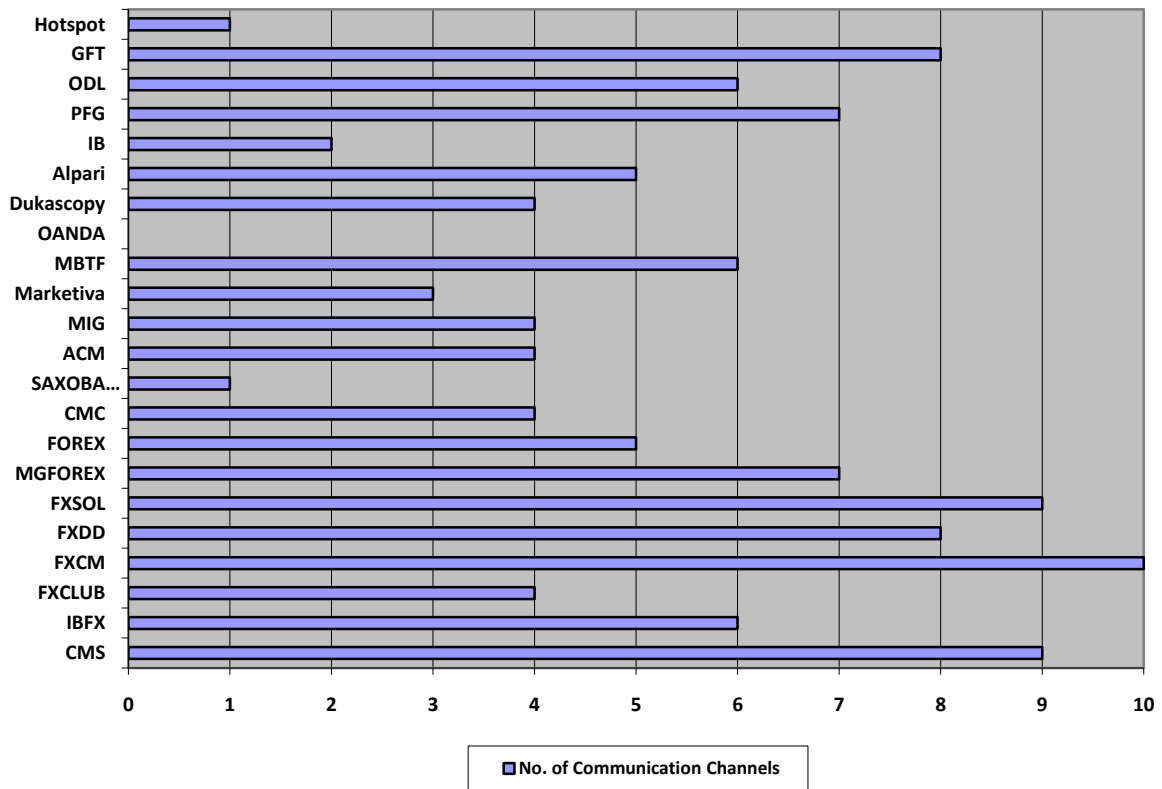


Fig. 1.4.4 Communication Methods Utilized in Mainland China by Each Firm

The selection and utilization of IBs can sometimes be a dilemma for brokerage firms. While gaining the possibility to enhance the client base in a cost effective way, moral problems among existing and potential clients may arise if the selection of IBs is not up to certain standard, as business ethics cannot keep its integrity.

Firms like OANDA, which does not apply the IB/WL strategy, focuses on its core competency to offer clients the best service practice, and has achieved excellent reputation. IBFX on the other hand, although still offers IB/WL opportunities, but the selection is quite rigid. These strategies may affect the market share of the firms, but keep the firms away from negative market impression results due to unethical IB conducts.

White Label Partners relationship is not yet popular in Mainland China due to policy restrictions. The ice was somehow broken by Saxobank in 2007, when the State Council and CBRC permitted Saxobank to set up representative office in Beijing and operate in Mainland China together with national banks. The strategy that Saxobank implements is to incorporate with national banks in China by White Labeling, therefore there exists a mutual beneficial relationship between the banks and Saxobank instead of fighting each other for market share. This also aligns with the goals of CBRC to fight against underground forex margin trading, therefore received sufficient support from the government—although after much consideration back and forth.

1.5 IPO OPPORTUNITY

1.5.1 IPO REGULATION STATUS

The IPO of foreign-funded enterprises has been a historical debate in China since the late 1990s. The policy was in favor of foreign enterprises until 1995 when the government reversed it, for the protection of local enterprises and meets their funding needs. In 2001, the Foreign Trade and Economic Department released a notice which formally proposed that foreign-invested enterprises may apply to be listed in Shanghai/Shenzhen A or B1 shares market.

Although the notice has somehow cleared the pathway for foreign-invested companies to be listed locally in China, the legal proceedings still needs to be formalized. Nevertheless, this notice was seen as the ice-breaking document, many famous companies such as Kodak, Bank of East Asia, Unilever...etc were intended to proceed with IPO in China by then, but after more than one year's silence, in year 2003, a small Japanese controlled company (60% control) which had been operating in China for years came to be the first foreign-invested company listed in the Chinese stock market. It was expected that small capital firms as such would not influence the market condition when listed, also the operations conducted by the domestic firm is basically similar to the parent-company. This is also the one and only case—up till now—a foreign controlled domestic firm to be listed in A share stock market.

The possible route for foreign-invested, domestically registered enterprises to be listed is:

- Direct application for listing

The foreign investor can act as initiator and participate in restructuring and listing of domestic enterprises—this applies to foreign-funded enterprises that are in line with the National Industrial Policy.

The National Industrial Policy includes, but limit to:

¹ The A shares are Renminbi (RMB—Chinese Yuan) Ordinary Shares. It is issued by companies within China, and provided for subscribe and trading among inland individual or institutional investors (excl. investors from Hongkong, Taiwan and Macao). The B shares are RMB Special Shares. It is issued with RMB nominal values, but can only subscribe or trade with foreign currencies. The investors engaged in B share investments are limited to foreign investors, investors from Hongkong, Macao and Taiwan, also Chinese citizens who live abroad.

No matter for A or B share listed companies, their registered and listed locations are all within China. The difference lies in the categorization of investors. The B shares in Shanghai Stock Exchange are traded in US Dollars, while B shares in Shenzhen Stock Exchange are traded in Hongkong Dollars.

- Carry out shareholding system reform, and transform into foreign-invested company limited.
- Become domestically registered foreign-invested company.
- Be continuously profitable for 3 years.
- Be listed according to related asset restructuring provisions—to prevent spin-off listing and bundle listing.
- Enterprises intended to be listed shall proceed through one-year counseling period.

Wholly foreign-owned enterprises can also be converted to Company Limited and apply for listing—this applies to enterprises which have been operating in China for many years, and have established excellent relationship with local and central government. This case, however, has not yet been realized.

- Acquisition of listed companies

Foreign investments can acquire non-state-owned shares in domestic companies, especially in areas which are encouraged and supported by the government. The financial sector is part of the catalogue, however for securities and futures companies, as well as securities investment and fund management companies, the policy restricts the foreign control of the company to be less than 50%, range in between 30%-49%. For Trust and Investment Corporation, banks and Financial Leasing companies, there are no restrictions.

For foreign firms in adequate financial status, Management Buy-Out (MBO) is also an option to control domestic listed companies.

It is to the interest of the Chinese government that for multinational companies to be listed in China, six requirements shall be met to make the IPO process easier and faster:

- Foreign investment entity is internationally renowned business (Fortune 500).
- Business field is high-tech industry or industries that need to be developed in China.
- Company is of considerable size and scale.
- Financially enabled, good profitability. (Registered Capital > 30,000,000 RMB/5,000,000 CHF)
- With good development prospects and R&D headquarter in China.
- Good management structure.

At the end of year 2007, the statement from the third China-US Strategic Economic Dialogue permitted eligible foreign-invested enterprises (incl. banks) to issue RMB-denominated shares. Legally speaking, there are no obstacles any more. It is the requirement of WTO and the goodwill of the government to gradually open up the domestic capital market to allow free flow of investments. However it is expected that a few more years is needed for large-scale enterprises to be listed in A shares market considering the practical side of the issue, since the domestic regulations, supervision and investor protections are not yet in place to be fully functional.

1.5.2 SPECIAL CONSIDERATIONS ON THE CHINESE STOCK MARKET CONCERNING THE TIMING OF IPO

The Chinese stock market, while facing the same financial crisis that affected the global financial market, still has its own issues to deal with. Several internal matters shall keep the Chinese government busy for the next 2 to 3 years.

First of all, some of the domestic companies in Mainland China which have their stocks listed in the Hongkong Stock Exchange (H Shares) are also willing to be listed in the domestic stock market.

This process involves 91 companies, among them, 25 companies each has a market value over 3 billion CHF. Due to fact that the valuation of stocks in Shanghai/Shenzhen Stock Exchange is much higher than the valuation in Hongkong Stock Exchange, it is estimated that the return of these H shares will improve the overall quality of the stock market in China, while bring in advanced management experience and standardized operation procedures.

Second, the historical problem of the non-tradable shares being resolved during year 2006 to 2010 gives negative impact on the stock market.

The non-tradable shares exist since the Chinese stock market was founded in the 1990s. As the Chinese government was willing to maintain control in most companies listed, therefore the majority of the companies' shares (over 60% on average) were set as non-tradable and controlled by the central government. Nowadays the government finds it no longer necessary to maintain such control, and willing to make the 'non-tradable' 'tradable'.

Due to the extremely low initial cost and the considerable volume of these non-tradable shares, selling them on the current market yields great profit. The selling is in process since year 2006, and year 2009 is the peak—which is roughly equal to the sum of all other years from 2006 to 2010. The absolute number is about 663 billion shares; market value yield is 6,610 billion RMB (about 1,100 billion CHF—half the size of total market value of Shanghai & Shenzhen Stock Exchange).

In late 2007 and throughout the whole year of 2008, the selling of non-tradable shares has already imposed negative impact on the stock market. This is not only reflected in the dropping stock market index, but also reflected in the decline of confidence about the

market among the investors. As such, it is expected the stock market in Mainland China will not experience significant recovery before the end of year 2010.

Third, refinancing of large corporations exceeds the affordability of the current market. These refinancing actions are generally in huge volume, aims purely at collecting money, without decent practical plan to properly utilize the new capital.

Example like China Ping'an Insurance Company, the refinancing plan in 2007 is 160 billion RMB (27 billion CHF), which is greater than the sum of the two largest IPO in the history of Chinese stock market. Since equity financing is currently the most favorable method, refinancing plan as such has critical impact on the Chinese stock market, as well as on the investors' confidence about the market.

As a conclusion, there is potential in IPO opportunity in Mainland China, but in the recent 2 to 3 years—i.e. before 2011, the opportunity is not yet mature to pursue IPO for foreign-invested firms. The regulatory obstacles and stock market uncertainties make it difficult for the company to realize substantial financing plan and receive fair market valuation.

2 BUSINESS OPERATING ENVIRONMENT OF FOREIGN EXCHANGE BROKERAGE IN HONGKONG



2.1 PEST ANALYSIS

2.1.1 POLITICAL FACTORS

POLITICAL STABILITY

Since the failure of old China (Qing Dynasty) in Opium War in 1841, Hongkong had been under foreign control for over 150 years. After the People's Republic of China was founded in 1949, the negotiation on transfer of sovereignty between P.R.China and the British government last for about 20 years. The final decision was to make the transfer in 1997.

After the sovereignty transfer, Hongkong became Special Administrative Region (SAR) of China.

The policy of Chinese government regarding Hongkong was 'One Country, Two Systems'. To respect the way of life of the Hongkong people, together with the democratic political systems, laws, financial systems, the promise of the central government is to keep these unchanged for at least 50 years after the transfer. This is to allow a smooth transition and integration. The People's Liberation Army sent about 8,000 soldiers to Hongkong to uphold national safety, but not to interfere with the internal matters of Hongkong.

Over the past 11 years after the transfer, the political environment of Hongkong is seen stable and progressive. The desire of democratic political atmosphere by the Hongkong people is taken into concern by the central government, and gradually steering the policies towards it, seek to give the people more power to determine their own future.

There is not yet any regional or national conflicts known that can endanger the political stability of Hongkong.

POLICY RESTRICTIONS

Foreign Exchange Margin Trading is permitted by law in Hongkong. It is the regulation of Hongkong Securities and Futures Commission that the maximum leverage offered by foreign exchange brokerage firms is 1:20, normally the leverage offered ranges in between 1:5 to 1:20.

TAX POLICY

Hongkong is one of the regions in China that enjoys the most freedom in commerce, both domestically and internationally. Several advantages can be obtained when register a company in Hongkong:

- Little restrictions on scope of business.
- Low tax rate. Company income tax rate is set at 17.5%. No tax burden if the company does not make profit.
- No confirmation process requested on registered capital. No actual transition of money to the banks in Hongkong is needed. The minimum requirement for register a company is 10,000 Hongkong Dollars (1,700 CHF).
- International portal for flow of goods and investments with rapid handling speed. No import or export tax is charged.

2.1.2 ECONOMIC FACTORS

ECONOMIC GROWTH

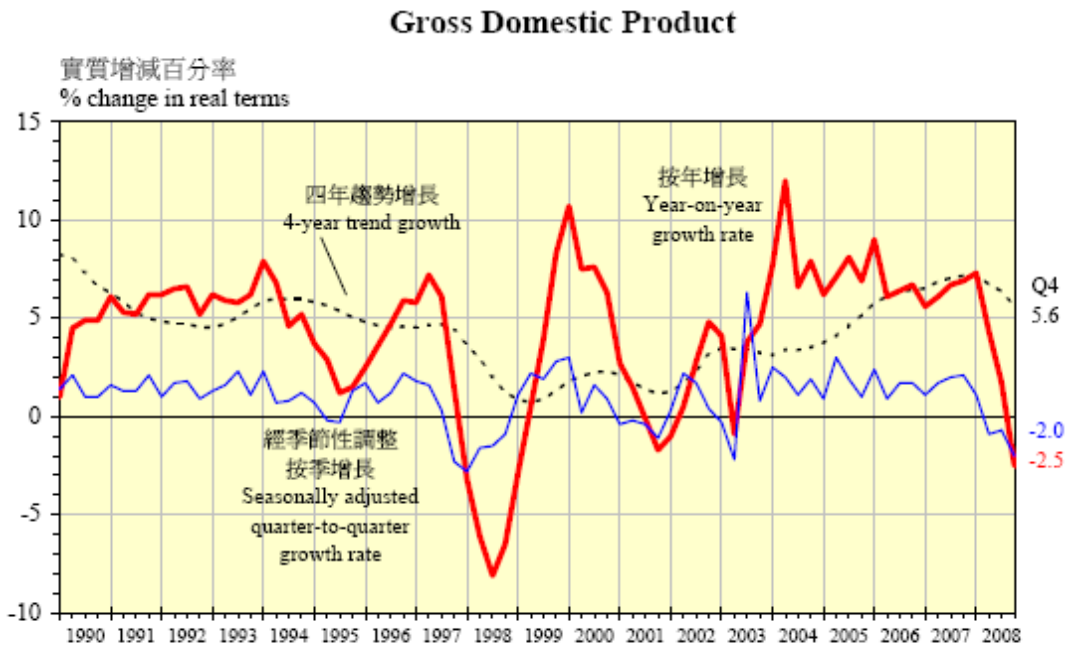


Fig. 2.1.2.1.1 Hongkong GDP 1990—2008

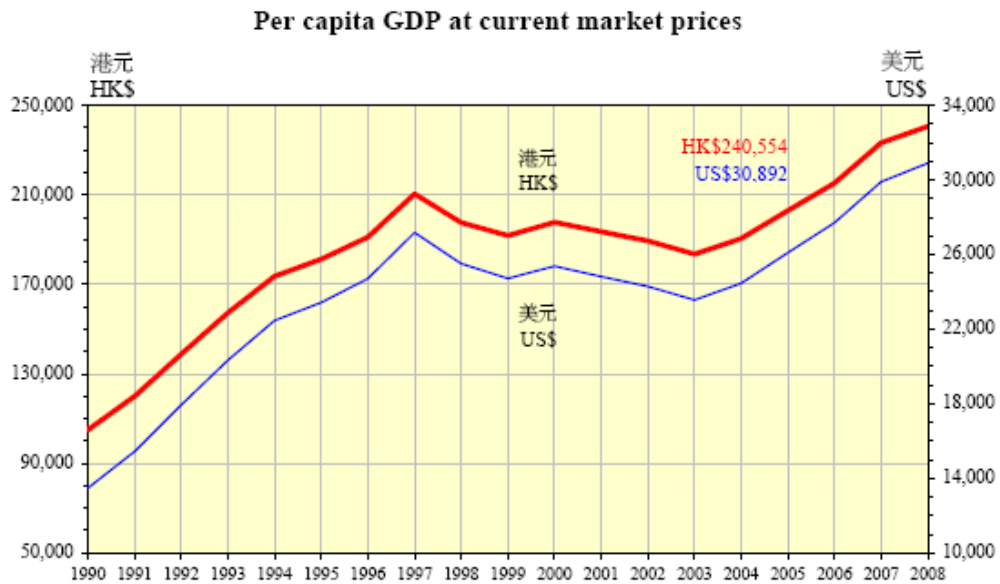


Fig. 2.1.2.1.2 Hongkong GDP per Capita 1990—2008

Hongkong is one of the leading regional economies in Asia-Pacific region. For the past 20 years, the Hongkong economy is almost tripled. The real GDP growth on average is 5.1% per year. GDP per capita is more than doubled compare to 20 years ago, which is equivalent to 3.8% growth per year.

FOREIGN EXCHANGE RESERVES

By the end of February 2009, the foreign exchange reserve of Hongkong total up to 177 billion USD, which ranks No. 8 in the world. This amount is 7 times more than the local currency in circulation.

Since the transition of Hongkong in 1997, the foreign exchange reserve is seen to steadily increase over the years.

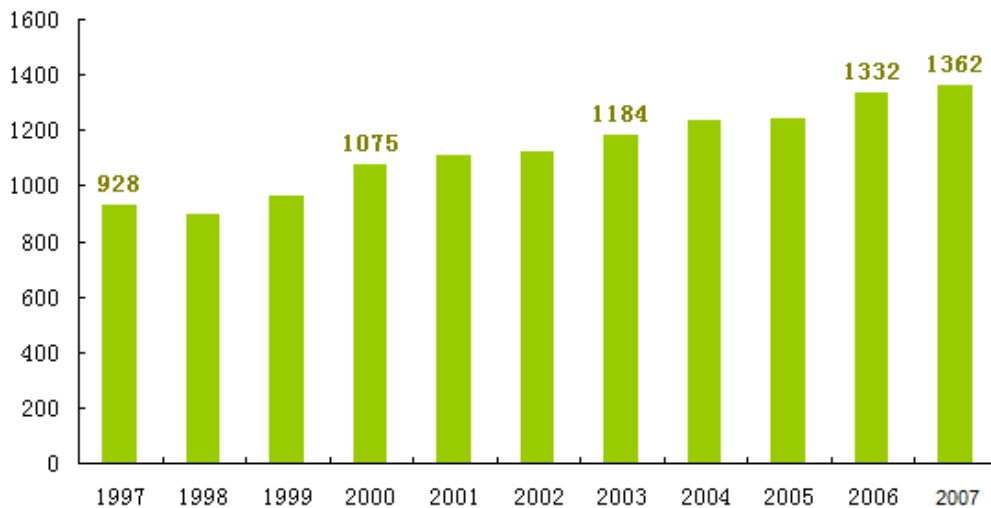


Fig. 2.1.2.2 Hongkong Foreign Exchange Reserve 1997—2007 (in hundred million USD)

INFLATION RATE

The situation of high inflation rate was improved since the transition in 1997 after the Asian financial crisis. Since the beginning of the new millennium, as the unemployment rate drops, the economy steadily develops which drove the domestic demand and causes the inflation rate to increase. Especially in the 2008 world financial crisis, 90% of the increase was due to rent and food prices, and drove the inflation rate back to the same level as in the 1997 crisis. It is expected the raise of inflation will last for a few years more.

Composite Consumer Price Index

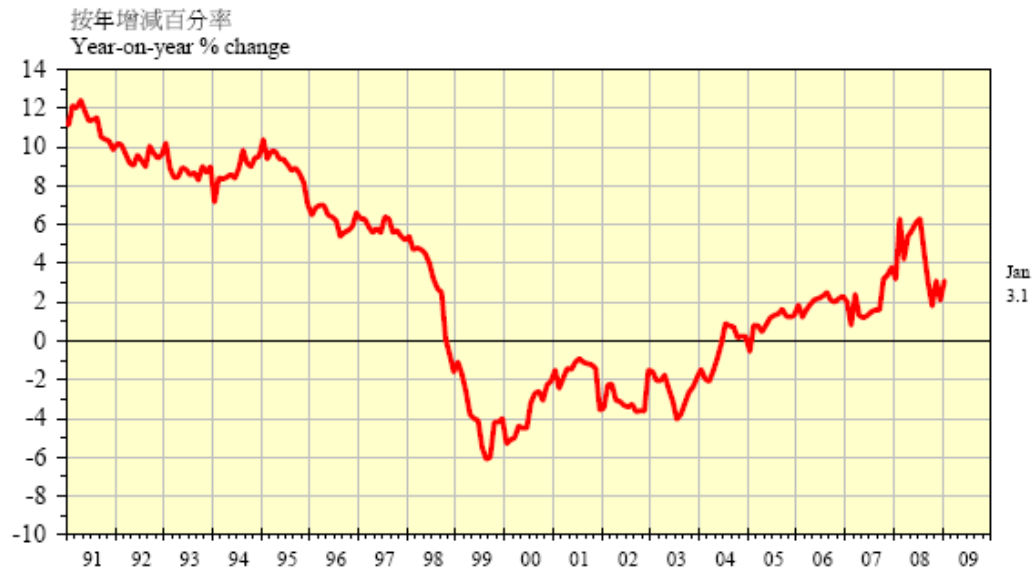


Fig. 2.1.2.3 Hongkong Composite Consumer Price Index 1991—2009

STOCK MARKET AND REAL-ESTATE MARKET

Hang Seng Index



Fig. 2.1.2.4.1 Hongkong Hang Seng Index 2001—2009

The Hang Seng Index of Hongkong Stock Exchange basically went through the same story as compared to Mainland China. The steady recovery from Internet bubble burst started from 2005, and reached its peak (31,958) in November 2007. Affected by the world financial crisis

in 2008, the Index dropped to 10,676 in October 2008, and lost more than 60% of the market value in less than a year. The index is currently at 13,000, and no decent recovery is foreseen in the near term.

The Hongkong economy largely relies on its stock market. Recovered from the Internet bubble burst, the housing price in Hongkong has been steadily increasing since 2004. Dramatic raise of price was seen in 2007, and a rapid decline of more than 25% followed in 2008 in the world financial crisis. The current downturn shall maintain its status in the short term, recovery of the housing prices will largely depend on the world economy and financial markets.

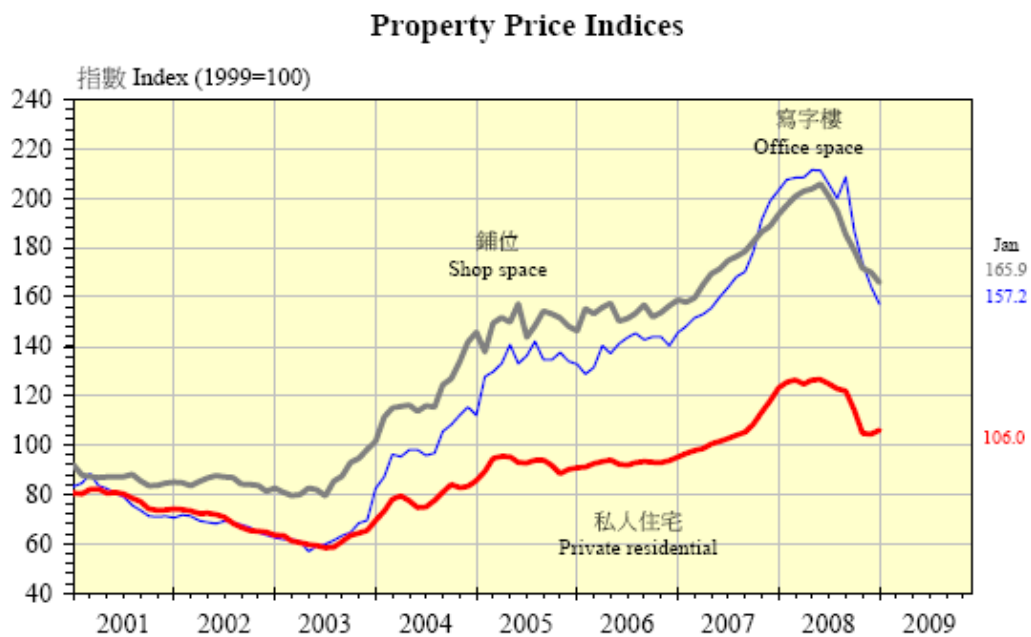


Fig. 2.1.2.4.2 Hongkong Property Price Indices 2001—2009

EXCHANGE RATES

The exchange rate of Hongkong Dollar (HKD) was associated with British Pound for a very long period. In 1972 HKD was associated to USD after the announcement of the UK on free float of British Pound. The exchange rate of HKD has been dropping since 2001 for about 20%, and currently the exchange rate between Hongkong Dollar and US Dollar is 7.75 (1 USD=7.75 HKD).

Effective Exchange Rate Indices

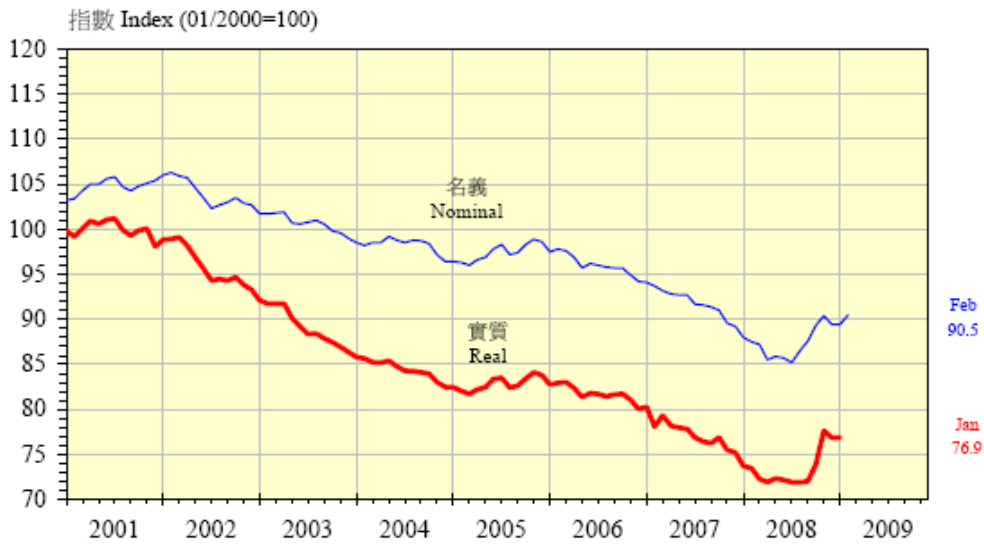


Fig. 2.1.2.5 Hongkong Effective Exchange Rate Indices 2001—2009

INTEREST RATES

Interest rates

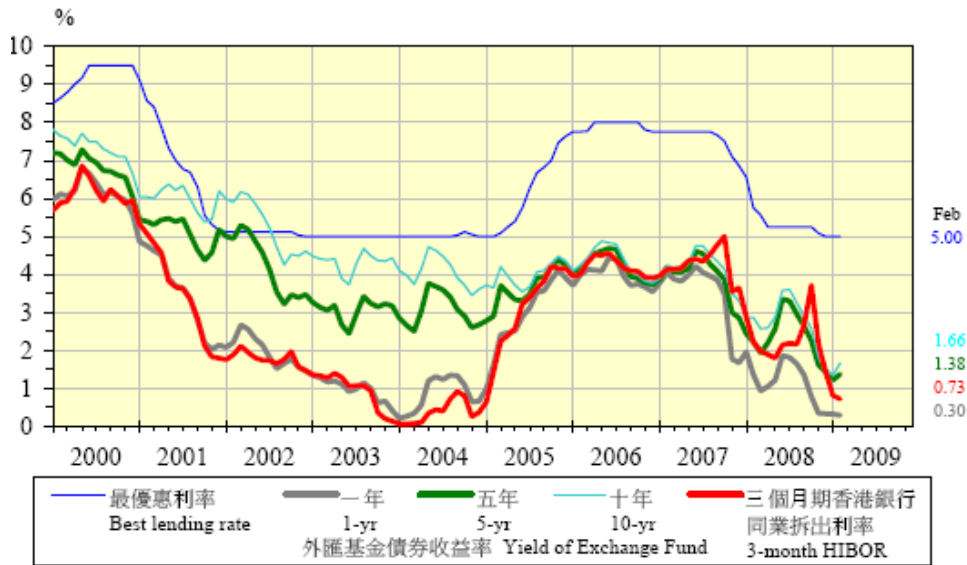


Fig. 2.1.2.6 Hongkong Interest Rates 2000—2009

ECONOMIC FORECAST FOR 2009 AND MEDIUM TERM

OUTLOOK FOR YEAR 2009

- Being small, open and highly integrated with the rest of the world, Hong Kong's economic performance is closely tied to the demand conditions of its major economic partners, many of which are being paralyzed by the global financial tsunami. The Hong Kong economy is forecast to contract by 2% to 3% in 2009. This projection is subject to considerable uncertainty, especially if the negative feedback loop between global economic weakness and financial stress continues to intensify to prolong and deepen the crisis.
- Given the severity of the global economic downturn and the knock-on effects on Asia, Hong Kong's external trade this year is bound to be severely hit.
- Local consumer spending will be depressed by heightened uncertainties, falling household wealth and rising unemployment. Investment will similarly stall until clearer signs of an economic recovery are in sight.
- The measures implemented by the Government to stabilize the financial markets, support enterprises and create employment, together with the further growth of the Mainland economy and the Central Government's support measures to Hong Kong, will provide some relief to the Hong Kong economy in difficult moments like this.
- Inflationary pressures will come down notably further in 2009. Headline consumer price inflation is forecast at 1.6%, and the underlying inflation at 1.5%.

OUTLOOK FOR MEDIUM TERM

- After the current global crisis has fully run its course, the medium and longer-term economic prospects for Hong Kong should remain promising. The Government, together with the private sector, will continue to step up efforts to raise the competitiveness of the economy to complement the vibrant developments in the Mainland, by restructure the economy towards knowledge-based, high value-added activities; by enhancing Hongkong's roles as an international financial centre and a leading business hub; and by further strengthening the integration with the Mainland.
- The trend GDP growth rate in real terms is forecast at 3.5% per annum from 2010 to 2013, and the trend rate of underlying consumer price inflation at 2%.
- Apart from the issues regarding the timing and strength of a global economic recovery, there are several other challenges prevailing in the external environment over the medium term.
 - The financial tsunami will lead to reforms in the global financial framework, to which Hong Kong will have to adjust and adapt quickly. The unwinding of global trade imbalances is now underway, and this could complicate the global economic recovery process. The aftermaths of the unprecedented policy responses by the US government can bring about a great deal of uncertainty over the movements of the US dollar in future, which can heighten volatility in financial and foreign exchange markets.
 - The political implications of higher unemployment in the advanced economies due to the current downturn cannot be ignored, as stronger protectionist sentiment from the US and EU against Mainland products may emerge, increasing the risk to Hong Kong's trade.

- Domestically, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities would lead to greater variability in income and wealth distribution.
- The ageing population will have profound implications on health care and social welfare systems, as well as on public finance, over the medium and longer run.

2.1.3 SOCIAL FACTORS

EDUCATION

The majority of the Hongkong population (about 60%) is educated at least to the upper secondary level. 25% of the population received college education.

Population aged 15+ by educational attainment

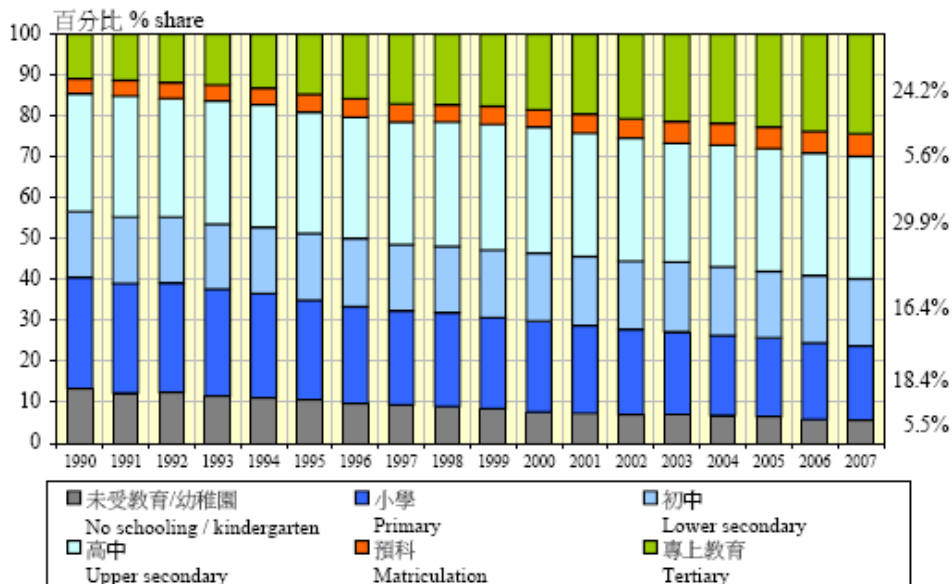


Fig. 2.1.3.1 Educational Attainment of Hongkong Population

INTERNET USER PROFILES

- Among the total Hongkong population age in between 18 to 74, 69% (3.6 million) of them are Internet users.
- The Internet infrastructure in Hongkong permits 98% of the users to connect via broadband. 22% are connected using wireless network.

- The gender distribution among Internet users is roughly equal, with a difference of 5%.
- 70% of the users are in between 18 to 50 years old.
- Evidence shows that the Internet penetration rate is positively related to personal income. The personal income distribution in Hongkong is shown in the graph below:



Fig. 2.1.3.2 Hongkong Internet User Monthly Personal Income Distribution (in USD)

LABOR AND WAGES

The unemployment rate in Hongkong is relatively low, basically ranges around 5% to 6%. Over the long-term, the figure is adjusted to about 1.5% to 2%. The financial service sector—which is relatively less labor-intensive—accounts for only 6% of the total workforce but 16% of GDP. The unemployment rate in the financial service sector is roughly 1.5%.

The wage rate in Hongkong is in general much higher than in Mainland China and is steadily increasing over the years. The nominal value of average yearly income per person in Hongkong is 25,430 USD; however it is believed that this is significantly lower than the real value.

Unemployment rate

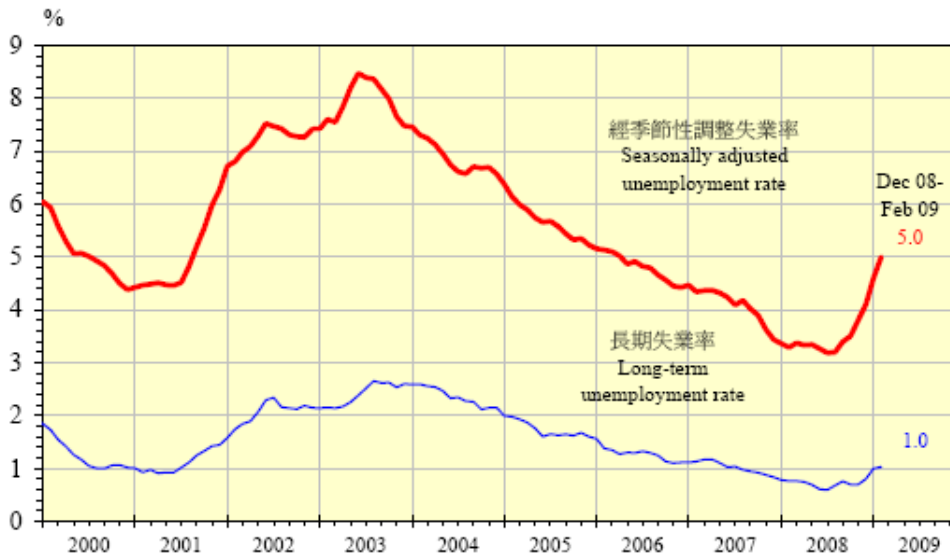


Fig. 2.1.3.3.1 Hongkong Unemployment Rate 2000—2009

Total labour force and total employment



Fig. 2.1.3.3.2 Hongkong Total Labor Force and Employment 2000—2009



Fig. 2.1.3.3.3 Hongkong Labor Income 2000—2008

POPULATION GROWTH AND AGE DISTRIBUTION

The population of Hongkong by year end 2008 is about 7 million, while the elderly (65+) comprises of about 14% of it. The gender distribution is basically equal. The expectation of life is quite high due to the living quality in Hongkong.

Mid-year population by age-group

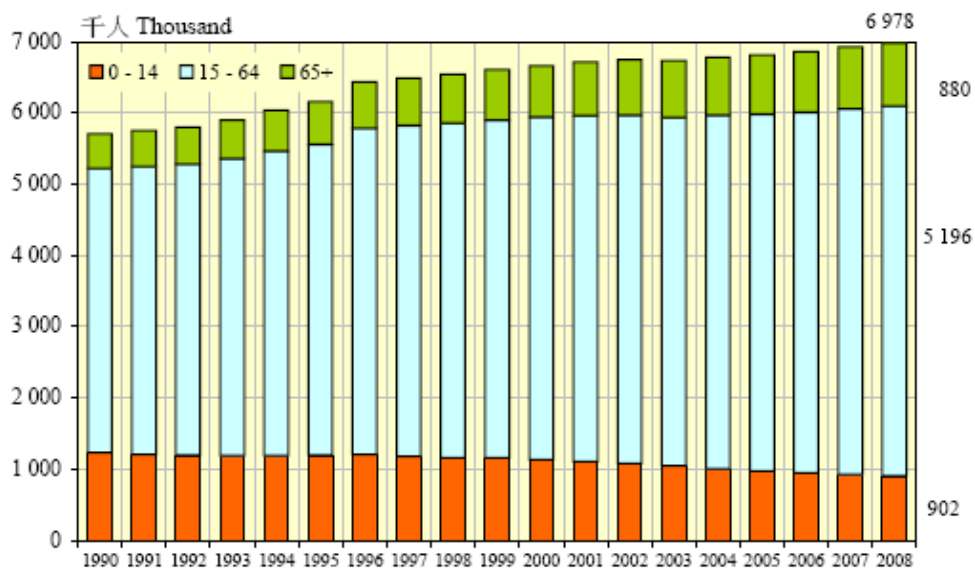


Fig. 2.1.3.4.1 Hongkong Population by Age Group 1990—2008

Mid-year population by sex

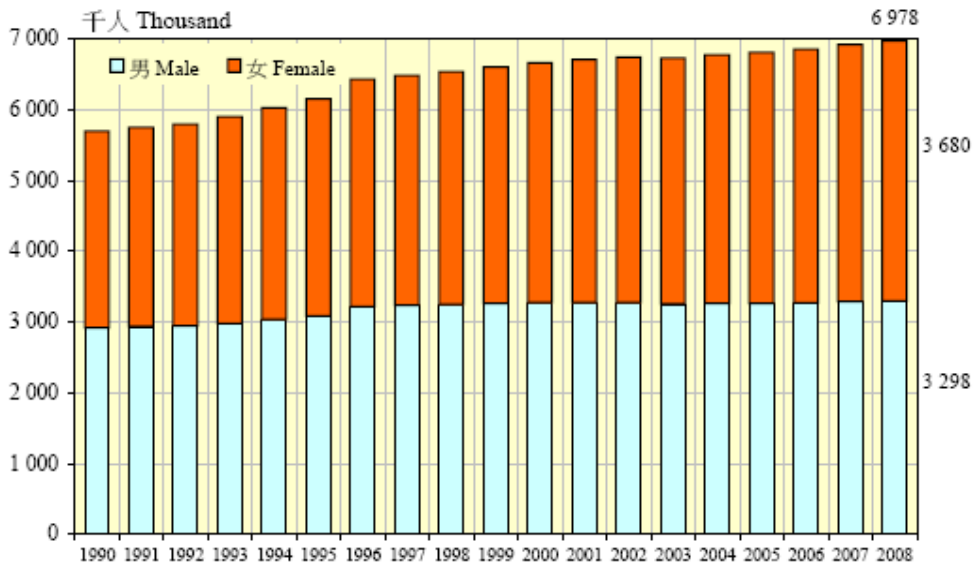


Fig. 2.1.3.4.2 Hongkong Population by Sex 1990—2008

Expectation of life at birth and total fertility rate

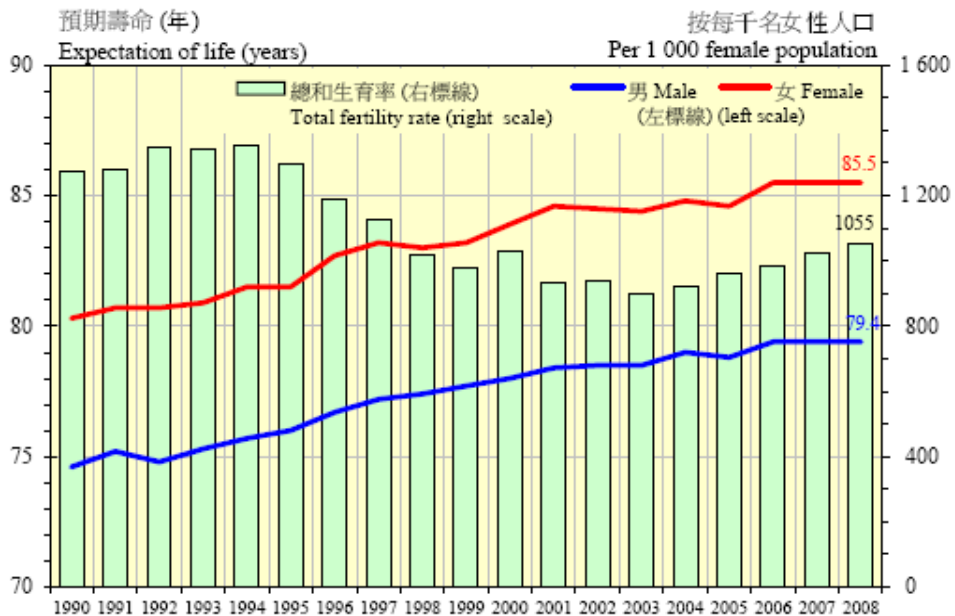


Fig. 2.1.3.4.3 Hongkong Population by Age Group 1990—2008

2.1.4 TECHNOLOGICAL FACTORS

TECHNOLOGY INCENTIVES

The main methods for connecting to the Internet in Hongkong include Broadband, Cable TV, and Wireless Connections. For many years, different wireless connection methods (WLAN, GPRS, WAP, EDGE, 3G, HSDPA) accounts for only 5 to 10 percent of the overall connections. In 2007, this figure jumped to 20%, indicates a clear trend of demand for mobility.

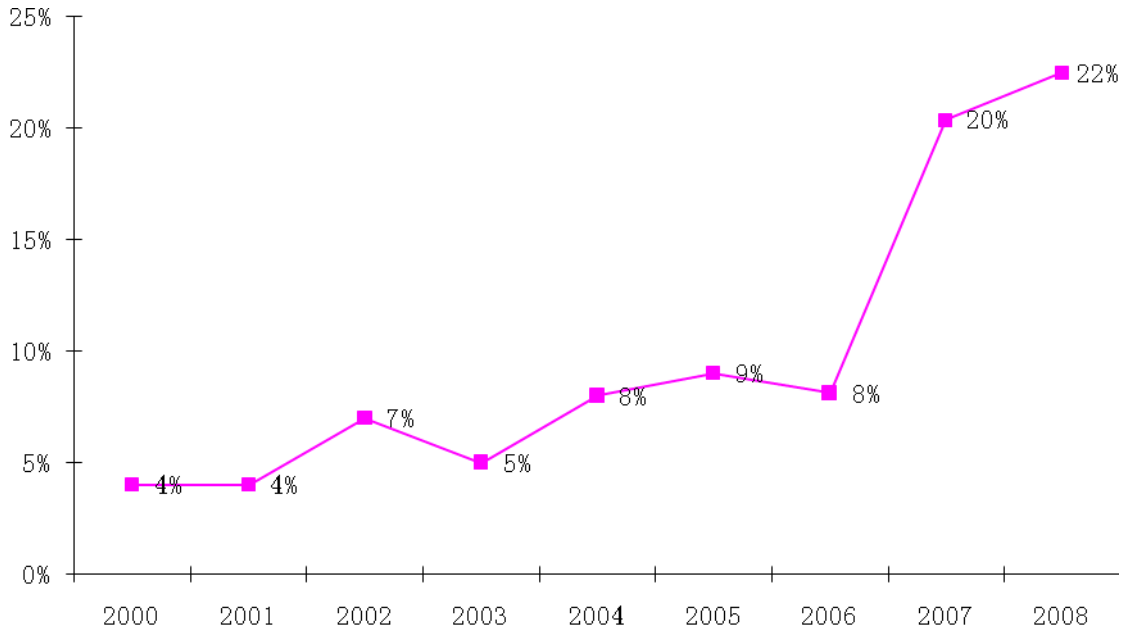


Fig. 2.1.4.1.1 Wireless Internet Connection in Hongkong 2000—2008

The tools utilized for surfing the Internet are desktop computers, laptops, mobile phones, PDAs, TV or other home appliances. The use of desktop PCs and PDAs are stabilized at around 90% and 5% respectively during the past few years. The percentage that uses laptops is increasing gradually, from 14% in 2006, 28% in 2007, till 37% in 2008. The connection using mobile phones is almost doubled in 2008 at 10% compared to 6% in 2006 and 2007.

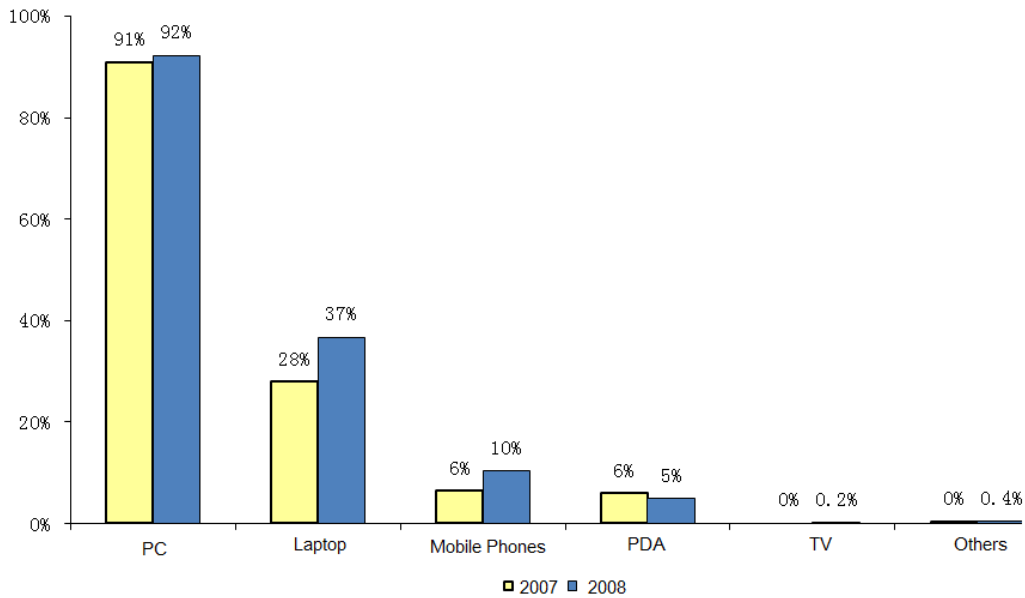


Fig. 2.1.4.1.2 Tools for Internet Connection in Hongkong 2007 and 2008

BARRIERS TO ENTRY AND OUTSOURCING

The barriers to entry in Hongkong mainly concentrates on the competition from banks—both local and international ones, such as Bank of East Asia (BEA), HSBC, Deutsche Bank, Hang Seng Bank, Standard Chartered Bank...etc.

As it is legal to trade currencies with leverage up to 1:20 in Hongkong, most local or international banks provide customers with foreign exchange margin trading services, even banks from Mainland China are engaged in the competition, e.g. BOC Asia (Bank of China), ICBC Asia (Industrial and Commercial Bank of China)...etc.

The advantages of the banks are their reputation and reliability. Customers feel more comfortable trading currencies with money deposited in a bank branch just nearby. However these banks mainly operate with higher spreads and funding requirements than normal forex brokers. Typical bank requirement for initial deposit to open a forex trading account is in between 5,000 to 10,000 USD. Spreads offered are ranging among 5 to 10 pips. In very rare cases the spread of certain major currency pairs can be as low as 2 to 3 pips. Due to policy reasons, some of these banks do not support clients with real-time price feed or technical analysis tools. These obstacles make the banks' offers less appealing to small investors.

Local and International forex brokerage firms also use Introducing Brokers (IBs) to attract customers in Hongkong. However due to the relatively limited potential client base, these firms are also active in attracting customers from Mainland China with IBs.

2.2 MAJOR COMPETITOR ANALYSIS

Since banks and brokerage firms are legally authorized to conduct foreign exchange margin trading business in Hongkong, potential competitions come from both. Besides the international players which are mentioned in Section 1.2 Major Competitor Analysis for Mainland China, the local and international banks in Hongkong constitute the major competition force against the company.

2.2.1 BANKS IN HONGKONG

Hongkong has been a traditional financial hub for the surrounding economies; most major banks in Asia-Pacific region either have branches or set up their headquarters in Hongkong. Important international banks also have their representations there. There are currently more than 100 banks in Hongkong, among which over 90% are foreign-invested banks. 73 out of the global top 100 banks are operating in Hongkong. More than 90 foreign banks' subsidiaries have their representative offices in Hongkong.

The various banks are the most trusted intermediary for conducting Foreign Exchange trading in Hongkong. Several of the major banks which are involved in the Foreign Exchange Margin Trading business are (but not limited to):

(1) Standard Chartered Bank

<http://www.standardchartered.com.hk>

The history of Standard Chartered in Hong Kong dates back to 1859. It is currently one of the SAR's three note-issuing banks. Publicly listed on both the London Stock Exchange and the Stock Exchange of Hong Kong, Standard Chartered employs 30,000 people in over 500 offices in more than 50 countries.

On 1 July 2004, the bank completed the local incorporation of its Hong Kong businesses, namely The Hong Kong branch of Standard Chartered Bank, Manhattan Card Company Limited, Standard Chartered Finance Limited and Standard Chartered International Trade Products Limited and Chartered Capital Corporation Limited. The Bank operates as a licensed bank in Hong Kong under the name of Standard Chartered Bank (Hong Kong) Limited.

Trading Types	FX Margin Trading (FXMT) FX Leverage Trading (FXLT)
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Account Setup Methods	Branch
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Currency Pairs	8 currencies with crosses (FXMT) 29 (FXLT, incl. crosses)
Maximum Leverage	1: 20 (FXMT) 1:10 (FXLT)
Lowest Opening Balance	10,000 USD (FXMT) 2,500 USD (FXLT)
Remark	Trade by phone or at the branches

(2) BEA (Bank of East Asia)

<http://www.hkbea.com>

Incorporated in Hong Kong in 1918, The Bank of East Asia (BEA) is dedicated to providing retail and commercial banking services to its customers in Hong Kong, Greater China, and overseas.

BEA is the largest independent local bank in Hong Kong, with total consolidated assets of HK\$415.3 billion (US\$53.58 billion) as at 31st December, 2008. The Bank is listed on the Stock Exchange of Hong Kong and is one of the constituent stocks of the Hang Seng Index. BEA operates one of the largest banking networks in Hong Kong, with over 130 branches in town.

BEA also operates over 60 outlets in Mainland China, one of the largest networks of any foreign bank. The Bank was one of the first foreign banks to:

- Attain Qualified Domestic Institutional Investor status from the China Banking Regulatory Commission ("CBRC").
- Receive approval from the CBRC to establish a locally incorporated bank in China. This wholly-owned subsidiary, named The Bank of East Asia (China) Limited, offers a full range of RMB (Chinese Yuan) services to all customers including local residents.

BEA also operates outlets in the United States, Canada, the United Kingdom, the British Virgin Islands, and Southeast Asia. Worldwide, including Hong Kong and China, BEA has an international network of more than 240 outlets and employs over 10,000 people.

Trading Types	FX Margin Trading (FXMT) FX Option Trading (FXOT)
Account Setup Methods	Branch
Currency Pairs	7 majors, 6 crosses
Maximum Leverage	1:12.5 / 1:16.6 (account open and active for more than 3 months)
Lowest Opening Balance	5,000 USD (FXMT) 25,000 USD (FXOT)
Remark	Trade by phone. Offer electronic banking service for customers to check FX account status. Margin call policy at 3%.

(3) ICBC (Industrial and Commercial Bank of China) Asia

<http://www.icbcasia.com/>

Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)"), a group member of Industrial and Commercial Bank of China Limited ("ICBC"), formerly known as Union Bank of Hong Kong Limited, was established in Hong Kong in 1964 and publicly listed in 1973 (Stock Code: 349). Over the years, the Bank offered new and diversified banking services to its customers. Following the Bank's change of name to "Industrial and Commercial Bank of China (Asia) Limited" on 21 August 2000, the Bank has become a member of ICBC.

On 6 June 2007, ICBC (Asia) was assigned A2/Prime-1 long-term/short-term deposit ratings and C- Bank Financial Strength Rating (BFSR) by Moody's Investors Service.

Trading Types	FX Margin Trading (FXMT) FX Option Trading (FXOT)
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Account Setup Methods	Branch
Currency Pairs	Unknown
Maximum Leverage	1:20
Lowest Opening Balance	10,000 USD
Remark	Trade by phone

(4) NCB (Nanyang Commercial Bank)

<http://www.ncb.com.hk>

Nanyang Commercial Bank, Limited ("NCB"), incorporated in Hong Kong on 14 December 1949. NCB is a wholly owned subsidiary of Bank of China (Hong Kong).

Presently, the Bank has 41 local branches and a branch in San Francisco in the United States. The Bank has also established a wholly owned subsidiary, Nanyang Commercial Bank (China), Limited, in Mainland, offering comprehensive banking services.

In 1982, NCB set up a branch in the Shenzhen Special Economic Zone, which is the first foreign bank branch in the Mainland China after the foundation of People's Republic of China. On 24th December 2007, Nanyang Commercial Bank(China), Limited ("NCB(China)") was commenced to further expand the Bank's development in the Mainland. Headquartered in Shanghai, NCB (China) provides products and services to customers with its network spanning Beijing, Shanghai, Guangzhou, Shenzhen, Haikou, Dalian and Shekou(Shenzhen).

The total assets of the bank is ranked 154th (8th in Hong Kong) in "Asian Banking 300". And the return of assets ranked 14th. (4th in Hong Kong)

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	8 majors, 4 crosses

Maximum Leverage	1:20
Lowest Opening Balance	Unknown
Remark	Trade by phone and online banking.

(5) Bank of Communications (Hongkong Branch)

<http://www.bankcomm.com.hk>

Founded in 1908, Bank of Communications (BOCOM) is one of four oldest banks in China and one of the early note-issuing banks of China. In 1958, while the Hong Kong Branch continued to operate, the mainland business of BOCOM was merged with People's Bank of China and the People's Construction Bank of China on BOCOM's foundation. To operate in line with economic reforms and development, BOCOM was restructured on July 24, 1986 with approval from the State Council and began operation anew on April 1, 1987, thus becoming China's first state-owned shareholding commercial bank. Its head office was in Shanghai.

As China's first national shareholding commercial bank, BOCOM was the first commercial bank to integrate banking, insurance and securities businesses. On June 23, 2005, BOCOM was listed in Hongkong, the first China based commercial bank of its kind to get listed outside of Mainland China. On May 15, 2007, BOCOM was listed in Shanghai Stock Exchange.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	7 USD majors, 8 HKD majors, 6 crosses
Maximum Leverage	1:20 / 1:7 (for HKD majors)
Lowest Opening Balance	Unknown
Remark	Trade by phone

(6) Hang Seng Bank

<http://www.hangseng.com/>

Hang Seng Bank is one of Hong Kong’s largest listed companies in terms of market capitalization. The bank provides a wide range of personal wealth management, commercial banking, corporate banking, treasury and private banking services. In Hong Kong, HSB has a network of over 210 service outlets, employees 9,600 people.

Established on 28 May 2007, the wholly owned subsidiary Hang Seng Bank (China) Limited operates a mainland China network of 32 outlets in Beijing, Shanghai, Guangzhou, Dongguan, Shenzhen, Fuzhou, ...etc. HSB also maintain a branch in Shenzhen for foreign currency wholesale business, branches in Macau and Singapore, and representative offices in Xiamen and Taipei.

Hang Seng Bank is a principal member of the HSBC Group, which holds a 62.14% equity interest in the Bank.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch, Internet
Currency Pairs	8 majors, 21 crosses
Maximum Leverage	1:15
Lowest Opening Balance	Unknown
Remark	Trade by phone and online. In-house developed trading platform carries out basic trading functions, without technical analysis tools. Typical spread 8 pips.

(7) Citi Bank

<http://www.citifxpro.hk>

Citi has some 200 million customer accounts and does business in more than 100 countries, providing consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Citi's major brands include Citibank, CitiFinancial, Primerica, Smith Barney and Banamex.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch, Internet
Currency Pairs	140+
Maximum Leverage	1:50
Lowest Opening Balance	10,000 USD
Remark	Advanced trading platform for retail clients, offered in conjunction with Saxobank. Spread for EUR/USD as low as 2 pips.

(8) DBS (Development Bank of Singapore)

<http://www.dbs.com.hk>

DBS is one of the largest financial services groups in Asia with operations in 16 markets. Headquartered in Singapore, DBS is the largest bank in the country as measured by assets, and a leading bank in Hong Kong. DBS' "AA-" and "Aa1" credit ratings are among the highest in the Asia-Pacific region. The bank employs 15,000 staff, representing over 30 nationalities.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch, Internet
Currency Pairs	Unknown

Maximum Leverage	1:20
Lowest Opening Balance	5,000 USD
Remark	Trade by e-banking online platform.

(9) DahSing Bank

<http://www.dahsing.com/>

The Dah Sing Group is active in the banking and insurance business. The Dah Sing Group consists of two listed companies, Dah Sing Financial Holdings Limited ("DSFH"), which has been listed on the Hong Kong Stock Exchange since 1987, and Dah Sing Banking Group Limited ("DSBG"), which has been listed on the Hong Kong Stock Exchange since 2004.

DSFH is the holding company for the group's life and general insurance business, as well as the majority shareholder in DSBG. DSBG has three banking subsidiaries (Dah Sing Bank, MEVAS Bank and Banco Comercial de Macau), and a securities trading company, as well as an offshore joint venture private banking business with SG Hambros Bank.

The Group has expanded rapidly in recent years, and DSFH had total assets of over HK\$124 billion as at 31 December 2007. The Group's main banking subsidiary, Dah Sing Bank's long term rating had been affirmed as "A-" and "A3" by Fitch and Moody's respectively in 2007.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	7 majors with crosses
Maximum Leverage	1:14
Lowest Opening Balance	Unknown
Remark	Trade by phone. Lowest spread 3 pips.

(10) Bank of China (Hong Kong)

<http://www.bochk.com>

Established on 1 October 2001, Bank of China (Hong Kong) Limited (referred to as Bank of China (Hong Kong) or BOCHK) is a locally incorporated licensed bank. It has combined the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in Nanyang Commercial Bank Limited and Chiyu Banking Corporation Limited, both of which are incorporated in Hong Kong, as well as BOC Credit Card (International) Limited.

Bank of China (Hong Kong) is a leading listed commercial banking group in Hong Kong in terms of assets and customer deposits. With over 280 branches and 450 ATMs and other distribution channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to retail and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong. In addition, BOCHK and its subsidiaries have 15 branches and sub-branches in the Mainland of China to provide cross-border banking services to customers in Hong Kong and the Mainland. BOCHK is appointed by the People's Bank of China as the Clearing Bank for Renminbi business in Hong Kong.

BOC Hong Kong (Holdings) Limited (the Company) was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. After a successful global IPO, the Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002, with stock code "2388", ADR OTC Symbol "BHKLY".

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	12
Maximum Leverage	1:20
Lowest Opening Balance	Unknown
Remark	Trade by phone and online banking platform.

(11) Deutsche Bank

<http://www.dbfx.com.hk>

Deutsche Bank has offices in 76 different countries, employs over 80,253 people, and possesses more than EUR 2,000 Billion of Assets. It is the No 1 Foreign Exchange House in the world in 2005, 2006, 2007 and 2008 (Euromoney FX Poll).

Deutsche Bank AG is a major participant in the world's foreign exchange markets. The daily FX notional trading volume is larger than the combined value of the major US, European, and Middle Eastern equity markets. The majority of the activity is focused on the major currencies of the world, the US dollar, Euro, Japanese yen, and British pound. The Euro / US dollar pair trades at a greater daily notional trading volume than the New York Stock Exchange. dbFX enables clients to trade the major currency pairs, the crosses, and several of the more important minor currency pairs, for a total of 34 currency pairs.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Internet
Currency Pairs	34
Maximum Leverage	1:100
Lowest Opening Balance	5,000 USD
Remark	Trade by online platform. Spreads of EUR/USD as low as 2 pips.

(12) Fubon Bank

<http://www.fubonbank.com.hk>

Fubon Bank (Hong Kong) Limited ("Fubon Bank") is a subsidiary of Fubon Financial Holding Co., Ltd. ("Fubon Financial"), a financial services group in Taiwan which is engaged in corporate and investment banking, financial markets, consumer finance, wealth management, investment management and insurance. Fubon Financial acquired a 75% stake from the Bank's former shareholders, Arab Banking Corporation and China Everbright in April 2004. The Bank formally adopted the name Fubon Bank on April 6, 2005.

Fubon Bank operates 24 retail outlets in Hong Kong including 22 branches and 2 Securities Services Centres, and provides financial services encompassing consumer and wholesale banking, wealth management, financial markets, hire purchase, securities brokerage and investment services. Fubon Bank is listed on The Stock Exchange of Hong Kong (stock code: 636) and holds an A-2 short-term, BBB+ long-term rating from Standard & Poor's.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	7 majors, 6 crosses
Maximum Leverage	1:20
Lowest Opening Balance	5,000 USD
Remark	Trade by phone

2.2.2 FOREIGN FOREX BROKERAGE FIRMS IN HONGKONG

Various brokerage firms in Hongkong can also offer foreign exchange margin trading. To give a general idea of the service level provided, two of the most famous brokerage firms in Hongkong are given as example.

(1) Emperor Financial Services Group

<http://www.emperorforex.com/>

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	7 USD majors, 7 HKD majors, 5 crosses
Maximum Leverage	1:20

Lowest Opening Balance	Unknown
Remark	Trade by phone Spreads 5 to 8 pips plus commissions (60-150 HK\$/Standard Lot Contract) Offer Mini contract

(2) Taifook Securities Group

<http://www.taifook.com/>

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch, Post, Internet
Currency Pairs	7 majors, 8 crosses
Maximum Leverage	1:20
Lowest Opening Balance	Unknown
Remark	Trade by phone and online platform. Commissions start at 0.25% (Min. HK\$100) Margin call policy at 1.5%.

2.2.3 SUMMARY ON FOREIGN EXCHANGE SERVICES OFFERED IN HONGKONG

From the information provided above, although the sample size of 14 (12 banks, 2 brokerage firms) is relatively small compare to the numerous financial institutions in Hongkong, their operating methods and level of service represent the local Foreign Exchange business protocol.

As a summary, most of the banks in Hongkong offer Foreign Exchange Margin Trading service. Among which, two of them offer Foreign Exchange Option Trading, that represents roughly 14%.

Most of the institutions require investors to be present at their branches when open up an FX trading account, only five of them (35%) have online platform for account opening purpose, and one of them (7%) allow account opening by regular post.

Generally the currency pairs offered for trading is below 10 on majors or crosses. Exceptions are Deutsche Bank and Citi Bank, which represents 17% of the total firms base on the acquired data. These two firms also make an exception on the leverage they offer, which are 1:100 and 1:50 respectively.

The known account opening balance is generally in between 5,000 to 10,000 US Dollars. Firms which offer FX Option Trading generally have higher requirement on client's capital.

For certain reasons, large amount of FX trading in Hongkong is still conducted by phone, or, to be present at the branch to place orders. Only 7 firms (50%) out of the 14 provide online trading platforms. However their systems are not open for investigation except Deutsche Bank, Citibank and Hang Seng Bank.

The spread offered in Hongkong by banks and brokerage firms are generally much higher than firms from US or UK (5-8 pips), plus the brokers also charge commissions on top of the spreads. Deutsche Bank and Citi Bank however, provide their retail clients with a typical spread of 2 pips on major currency pairs.

2.3 MULTILAYER MARKETING ANALYSIS

As a financial hub of the surrounding regions, the forex trading market in Hongkong is competed by not only foreign banks and brokerage firms, but also the local ones. Since it is legal to conduct foreign exchange margin trading in Hongkong, numerous brokerage firms—big or small—offer services through their own representatives and partnerships.

Although banks do not have the need to develop Introducing Brokers, as its branch coverage already provide sufficient means for client communication.

Many brokers do have IB initiatives to expand their client base. Firms such as Emperor Financial Services Group and Taifook Securities Group all expressed their willingness of taking on partners on their websites. Taifook has even set up a business development office dedicated for structure business alliances.

However considering the amount of brokers exists in Hongkong, these partnerships vary greatly in size, while some of the IBs are individuals which lack of sufficient online presence for data collecting purpose.

The general practice of foreign brokers is to set up representative office in Hongkong, or to have partnership with local brokerage firms to attract clients for them. Due to the legal restrictions, foreign firms mostly offer two kinds of accounts options for Hongkong investors which vary in leverage and regulation.

One is with 1:20 leverage to conform with Hongkong laws. This kind of account is fully protected by the Hongkong government. In case of bankruptcy of the brokers, the client's fund is fully recoverable.

The other is with leverage above 1:20, this kind of account is not protected by the Hongkong laws, and the client may only recover certain portion of his/her fund in case of bankruptcy of the broker.

To illustrate how foreign firms operate in Hongkong, FXCM Asia is taken as a typical example for its successful operation.

- FXCM ASIA was set up in 2003, headquartered in Hongkong, and it is a member of the FXCM Group. A second Asian office is available in Tokyo, Japan. Customer service is provided in both English and local languages, this includes representative office, toll-free call center, live online chat, email, website and forum.
- Other add-on services provided to the investors include free forex education seminars, online charting tools, and a comprehensive website—DailyFX—for daily forex market analysis and comments on relevant news&events.
- For account opening purpose, the client may open up an account with FXCM Asia in person at the representative office or by regular post.
- FXCM Asia does not operate through other IBs in Hongkong, but to conduct the business solely on its own. Considering the geographical characteristics of Hongkong, this is sufficient for successful operation.
- It is regulated locally by the Securities and Futures Commission (SFC) Hongkong to earn greater trust from the local investors.

Provide the different possibilities for Hongkong investors to trade forex—either with local banks/brokers or foreign ones, their preferred agencies vary due to different trading styles and requirements.

For medium to long term investors and investors with large amount of capital, trading with reputable banks and lower leverage is naturally the choice for them, which partially explains why the banks can still attract certain portion of the clients even with their obsolete trading technologies and high processing costs.

For small investors, in the purpose of accumulating wealth with higher speed, a higher leverage and sophisticated trading platforms, as well as comprehensive technical analysis tools are demanded; even though these benefits come together with less security of funds and higher risks.

However, the existing differences between banks and technology-advanced brokers do not represent a definite clear cut among the client bases. Most of the time, bank clients are

making the trade-off between security of fund and trade execution speed&cost. If the gap can somehow be filled by rewarding brokerage firms with bank-level fund management capabilities, or reward banks with broker-level technologies, clients are more likely to follow the route which they do not need to make a difficult trade-off decision.

2.4 IPO OPPORTUNITIES

As a gateway to Mainland China and with close trading and business links to other Asian economies, Hong Kong is strategically placed in a high growth region. Over the years, Hong Kong has developed into an internationally recognised financial centre and has provided many Asian and multinational companies with fund-raising opportunities. Due to the fact that Hongkong Stock Exchange has signed the Memo with NASDAQ, some stocks can be listed simultaneously on both exchange, the Hongkong financial market is also more appealing to the enterprises in Mainland China.

For the company to be listed in Hongkong Stock Exchange, the market for growth enterprises is a convenient route to be considered. The growth enterprises, particularly those emerging ones, i.e. enterprises that have good business ideas and growth potential, however, may not always be able to take advantage of these opportunities. A great number of them do not fulfil the profitability/track record requirements of the existing market of the Stock Exchange of Hong Kong (i.e. main board of the Exchange) and are therefore unable to obtain a listing. The Growth Enterprise Market (GEM) is designed to bridge this gap.

The Growth Enterprise Market does not require growth companies to have achieved a record of profitability as a condition of listing. This removal of entry barrier enables growth enterprises to capitalise on the growth opportunities of the region by raising expansion capital under a well-established market and regulatory infrastructure. Besides the listing of local and regional enterprises, international growth enterprises can enhance their business presence and raise their product profile in China and Asia by listing on GEM.

GEM does not have requirements on the company's net capital, since the focus of GEM is on the growth potential of the business, not the current financial basis. However substantive business operations, promising business plan and products are still demanded for being listed on the GEM.

Several of the key requirements on companies willing to be listed on GEM are listed below:

- The company is registered in one of the following regions: Mainland China, Hongkong, Bermuda, or Grand Cayman.
- The company must have a main business which is concrete and measurable.
- The company is operating under the same management team for two years before listing.

The Business Operating Environment of Foreign Exchange Brokerage in Asia-Pacific Region

- The company must appoint a sponsor for the purpose of providing assistance on listing application.
- The minimum public holding shares should have a ratio of 35% of the total share capital, and no less than 30 million HKD (3.87 million USD)
- The management shareholders are subject to a two-year share sales restriction.
- Provide detail statements on current business development status for the two years before listing and future planning for the two years after being listed.
- No audit requirement on quarterly business report.
- No minimum profit requirement.

GEM is opened to growth companies big and small engaged in all industries. Technology companies in particular should find it attractive to align themselves with the strong growth theme of the market. In providing a fund raising venue and a strong identity to technology companies, GEM complements and supports the HKSAR Government's initiative to promote the development of technology industries in Hong Kong.

Currently, the GEM's positioning can be summarised as follows. It serves growth companies, it focused on technological development and it targets Hong Kong and the Asian region. In practice, due to the relatively small domestic market and weak technology base, Hong Kong's GEM still needs to seek "growth" via the Mainland, mainly serving the Mainland's need in technological innovation. China should have the economic potential to support a market similar to the U.S.'s Nasdaq and Hong Kong should be the first choice in the medium term.

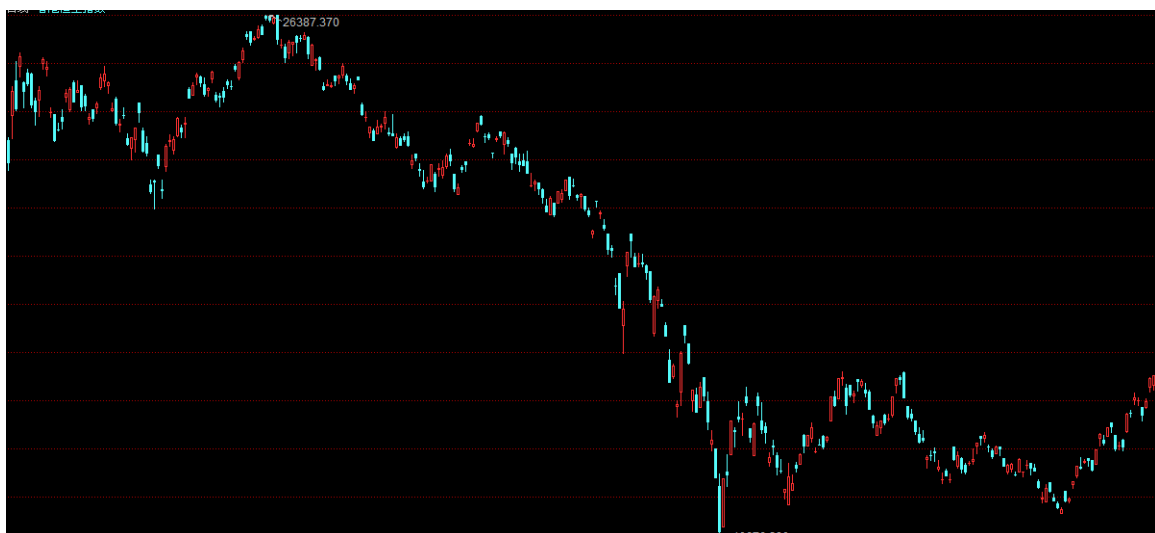


Fig. 2.4.2 HKEx Index daily chart (01.2008—04.2009)

The GEM was founded following the example of NASDAQ, therefore pursuit mainly on listing of new high-tech enterprises. After the Internet bubble burst, the GEM suffered severe shock due to the structural defects. During the recent financial crisis in 2008, GEM also experienced severe decline together with the main board.



Fig. 2.4.1 S&P/HKEx GEM Index daily chart (03.2008—03.2009)

The current GEM consists of 25 listing companies, their main business are network, computer, and telecom. Due to lack of liquidity compare to the main stock exchange, many enterprises are more willing to have their stock transferred and listed in the main board of Hongkong Stock Exchange.

Since its inception in 1999, Hong Kong's GEM has not performed satisfactorily, no matter in market turnover, capitalisation or promotion of technological development. Transfer to the main board by major GEM members has further weakened the GEM's image. Hong Kong's relatively weak technology base and small manufacturing sector, together with the weakness of technology shares worldwide after the turn of the century and competition from overseas growth markets, have created an unfavourable environment for the GEM.

Despite the above difficulties, Hong Kong's overall advantage, especially in comparison with the Mainland, should still support the GEM. Hong Kong's stock market is mature, as demonstrated in its efficiency, regulatory standards, diversified and mature investor base (particularly international investors), and market depth (as demonstrated in the listing of large state enterprises). Together with well developed business services, freedom of information and a sound legal system, Hong Kong should be an ideal place for an IPO.

The Mainland's need offers an opportunity for Hong Kong. Should Hong Kong's advantage and the Mainland's technological resources join force, Hong Kong's GEM can emerge as China's major growth market.

3 BUSINESS OPERATING ENVIRONMENT OF FOREIGN EXCHANGE BROKERAGE IN TAIWAN



3.1 PEST ANALYSIS

3.1.1 POLITICAL FACTORS

POLITICAL STABILITY

The sovereignty issue of Taiwan has been a long historical debate. In 1624 the Dutch occupied the south of Taiwan, and in 1626 the Spanish took over the control of northern Taiwan. After some 40 years, the Ming and Qing Dynasty of Mainland China send governors

to Taiwan, and controlled the island till 1895, when the Qing government failed in the opium war. Since 1895, Taiwan was taken over by the Japanese for half a century, till 1945 when Japan failed in the Second World War.

Since then, Taiwan was in control by the Chinese people again. However, due to the civil war, the governing body of Taiwan refused to admit that Taiwan is under the control of Chinese central government, and insist on maintaining its status as an independent country, which has its own diplomacy. Up until now, 65% of the Taiwan people still think Taiwan is an independent country, and 90% of the people are willing to maintain the current status between Taiwan and Mainland China.

It is the Chinese central government's policy that the world recognizes only one China, which is the People's Republic of China, and Taiwan is just a part of it. The tension between the Mainland and Taiwan has been seen not only to influence on the political stability of the Taiwan region, but also have dramatic impact on Taiwan's economy.

The current president of Taiwan, Mr. Ma Yingjiu, who committed his duty in 2008, is in favor of cooperating with the central government to develop the economy of Taiwan. As discussed in section 1.1.1.1, the region shall maintain its political stability in the near term. The probability of warfare shall be quite small.

POLICY RESTRICTIONS

Foreign Exchange Margin Trading is legally permitted in Taiwan. However the authorization is only given to several banks and brokerage firms.

TAX POLICY

The corporate income tax of Taiwan is set at 20% starting from year 2009; it was previously set at 25%.

3.1.2 ECONOMIC FACTORS

ECONOMIC GROWTH

During the past 30 years, the average GDP growth of Taiwan achieved 8%. The economy is directed by local government and foreign investments. The weight of agriculture in GDP drops from 35% in 1952 to 2% current. Instead, rely heavily on export, high-tech industries, especially electronics, gradually become the economic lifeline. A great proportion of the world's electronic parts are produced in Taiwan.

For a long period, the U.S. and Japan are the two most important trading partners of Taiwan, until recently Mainland China start to catch up. Taiwan is also the main investment source of Thailand, Indonesia, Philippines and Vietnam. There are more than 50,000 Taiwan enterprises operate in Mainland China, more than 1 million Taiwan business people and their family domicile in Mainland China.

Taiwan's economy was not severely damaged in 1997 Asia financial crisis. It is believed the result came from the sound fiscal policy adopted by the local government, and the collaborate effort from the local entrepreneurs.

However in the world downturn in year 2001, the economy of Taiwan suffered. The bad debt of the banks increased, and for the first time since 1947, economy deficit appeared, unemployment rate also climbed to record high. The tension between Taiwan and Mainland China also pledged critical influence. Since the end of 2003, the economy started to recover.

The GDP per capita of Taiwan is more than 15,000 USD, which is considerably higher than Mainland China, although still lower than Hongkong.



Fig. 3.1.2.1 Taiwan GDP Growth Rate 1998—2008

The estimation of GDP growth in 2009 is -3.59% by Taiwan Central Economy Bureau.

FOREIGN EXCHANGE RESERVES

The foreign exchange reserve of Taiwan ranks No. 4 in the world according to February 2009 data. The total amount equals to 293 billion USD, lower than Mainland China, Japan and Russia.

INFLATION RATE

Due to the world wide recession in 2008, by December 2008, the CPI of Taiwan was down to 1.27%. It is estimated by the central bank of Taiwan that in 2009, Taiwan economy shall continue its downturn; the CPI is projected to be -0.82%, which is a minor deflation.

In economics, deflation refers to a general reduction in the level of prices below zero percent year-on-year inflation. It is a sustained fall in prices that occurs when the inflation rate passes down below zero percent.

Because the price of goods is falling, consumers have an incentive to delay purchases and consumption until prices fall further, which in turn reduces overall economic activity. Since this idles capacity, investment also falls, leading to further reductions in aggregate demand.

STOCK MARKET AND REAL-ESTATE MARKET

Since the founding of Taiwan stock market in 1960s, it takes 25 years for the index to reach 1,000, during which time, the Taiwan economy experienced steady and rapid growth on an average rate of 9% per year. By 1986, foreign exchange reserve reached 70 billion USD, which was by then the second largest in the world. The great expectation on the regional economy resulted in hot money rushing into the island, provided too much liquidity. The market index slowly raised to over 4,000 in just a year's time. The 1987 American stock market crash hindered the Taiwan market a bit. After a drop of 42% (4673-2722), in 1988, the index reached 8,000. Till February 1990, the index hit historical high at 12,495. The 1990 Gulf War terminated the bubble, within 10 months, the market dropped by 80% (12,495—2,500). This is the most severe market crash in the history of Taiwan stock market, which produced a drama of 12 times growth in 3 years, and 80% drop in 1 year.

During 2008 world financial crisis, the index dropped from the peak of 9,740 in August 2007 to the bottom of 4089 in November 2008. This represents a loss of 58% in the market value. The index currently retraced to 5,705 in April 2009.



Fig. 3.1.2.4 Taiwan Securities Weighted Index 2004—2009

The real estate market in Taiwan basically experienced several phases which have typical intervals of six to ten years each.

1970--1976 is characterized by mass raise in housing prices, with increment of 113.5% reached in 1973, then slowly declined to 5% in 1976. The underlying reason is the increase in CPI of 51.3% which caused domestic investments geared towards real estate.

1977—1983 is another cycle of housing price increase. The price increased more than 100% in 3 years time. This was partially due to the world energy crisis and the complicated situation in the financial market. The real estate market again became the safe option for investments.

1984—1990 is regarded as the most dramatic raising period in housing prices. The compounded increase was almost 200%. High expectation of the regional economy drove the investments into all aspects of the local financial market, including the real estate market.

1990—2000 is the long recession of Taiwan real estate market. The slowdown of economical growth and over-supply of houses, together with the political uncertainty are regarded as the main cause of the recession.

2000 onwards the local government of Taiwan released several policies which are in favor of stimulating growth in the real estate market. Especially after March 2008 when Mr. Ma Yingjiu became president of Taiwan, the political water is seen to be clearer, the policies are geared towards open up between Mainland China and Taiwan in investments, tourism and transportation. It is widely expected the investments from Mainland China will boom the Taiwan real estate market. Over the long term, prosperity is the more likely scenario.

EXCHANGE RATES

The exchange rate between Chinese Yuan and New Taiwan Dollar (TWD) is currently at 1:4.9. Since Chinese Yuan is increasing in value for the past years, this ratio has generally been increasing.



Fig. 3.1.2.5 Exchange Rate Chinese Yuan to Taiwan Dollar 2008 Onwards

The current exchange rate between USD and TWD is at 1:33.79.

INTEREST RATES

Since the beginning of year 2009, the central bank of Taiwan has reduced the fixed deposit interest rate to record low which is below 1%. Starting from the first reduction on interest rate in September 2008 till now, the cumulated drop has account for 2.125%. The intention is to direct savings to investments and consumption, in order to stimulate economy.

3.1.3 SOCIAL FACTORS

EDUCATION

The government spends about 18% of the national budget on education each year. There are 172 colleges in Taiwan provide higher education, 153 colleges have graduate departments. The enrollment rate of each year's high school graduate is more than 80%. Currently there are more than 1.3 million students studying at undergraduate level or above. This represents 5.7% of the total population (23 million) in Taiwan.

The literacy rate in Taiwan is 99%.

LABOR AND WAGES

The workforce in Taiwan amounts to more than 10 million, of which 36% is working in industries, and 60% is working in services.

The current unemployment rate is at 4%.

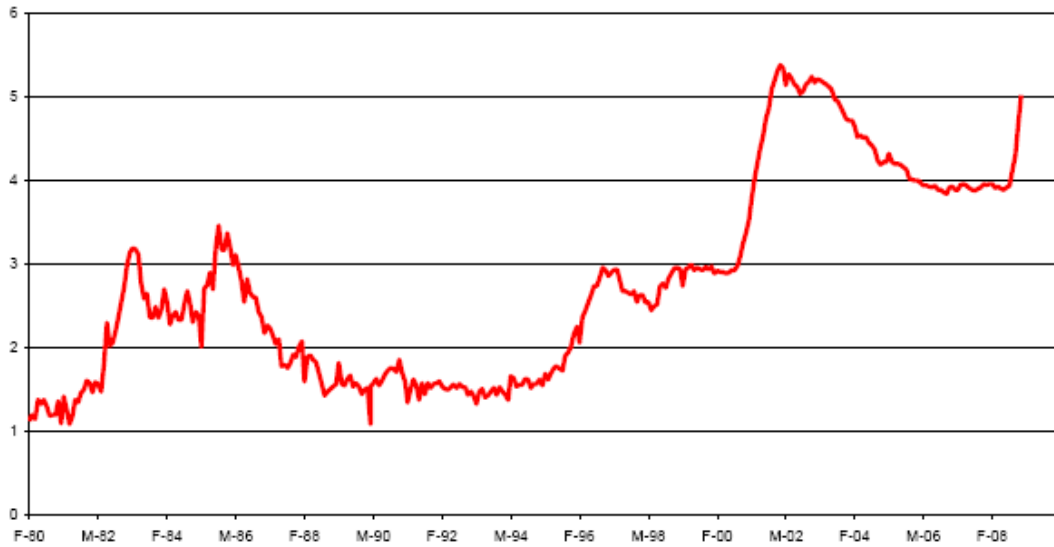


Fig. 3.1.3.3.1 Taiwan Unemployment Rate 1980--2008

Fresh graduates in Taiwan receive an average salary of 743 USD per month. Since the labor cost in Taiwan is higher compare to Mainland China, junior high school graduates on average earns more than university graduates, typically plus 118 USD per month. The average salary for working professionals with more 5 years experience in Taiwan is 972 USD per month.

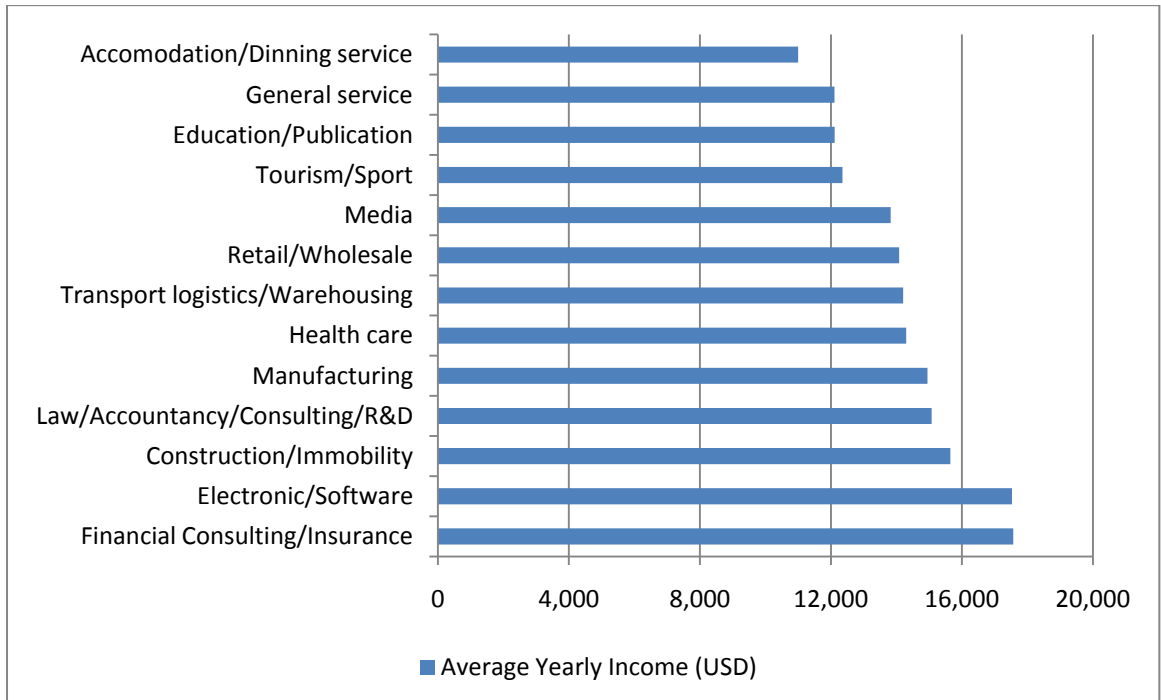


Fig. 3.1.3.3.2 Taiwan Average Wages by Industry

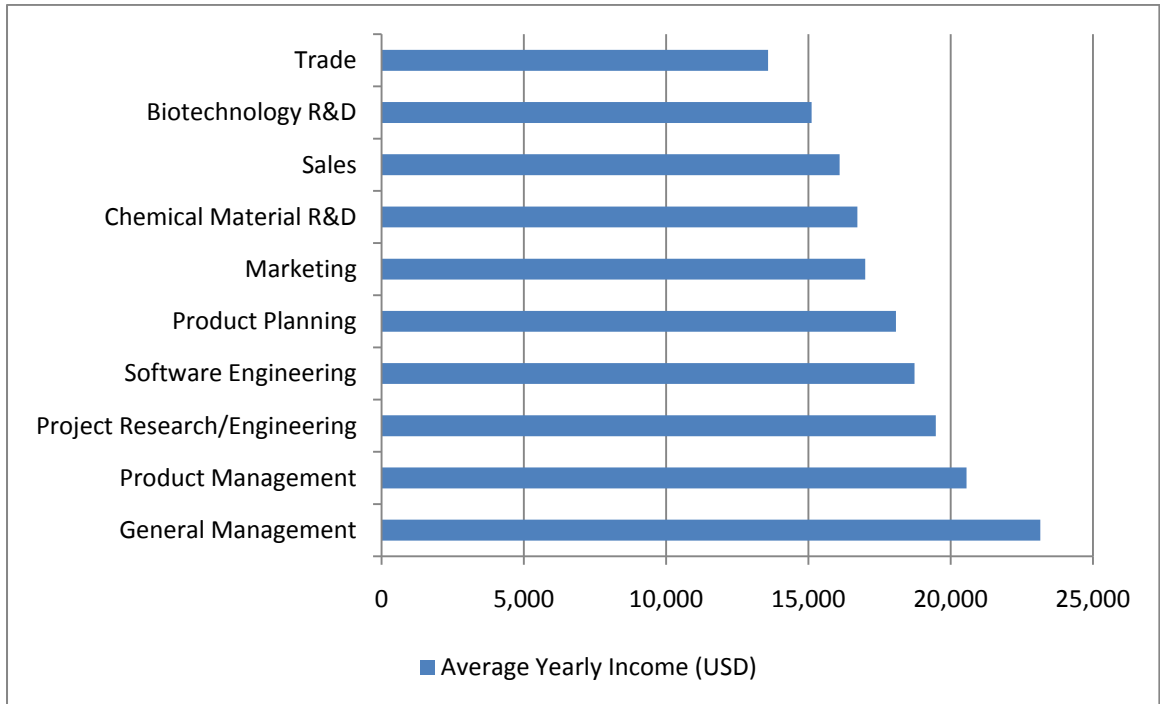


Fig. 3.1.3.3.3 Taiwan Average Wages by Occupation

POPULATION GROWTH AND AGE DISTRIBUTION

Covering 32,000 square kilometers of land, Taiwan has a population of 23 million, which represents 635 people per square kilometer. The population grows at 0.029% in recent years, with male to female ratio at 1:1.04.

98% of the population is Han (ethnic group), which originated from Mainland China.

The population structure is changing over time. The spike of birth rate in Taiwan happened around the 1970s results in large amount of young population. As time passes, the age distribution slowly shifts up towards aging population structure. The projection till year 2046 states that the proportion of aging population (65 and above) will amount to 35% of the total. This represents a dramatic shift of social structure comparing to the current rate of 13%.

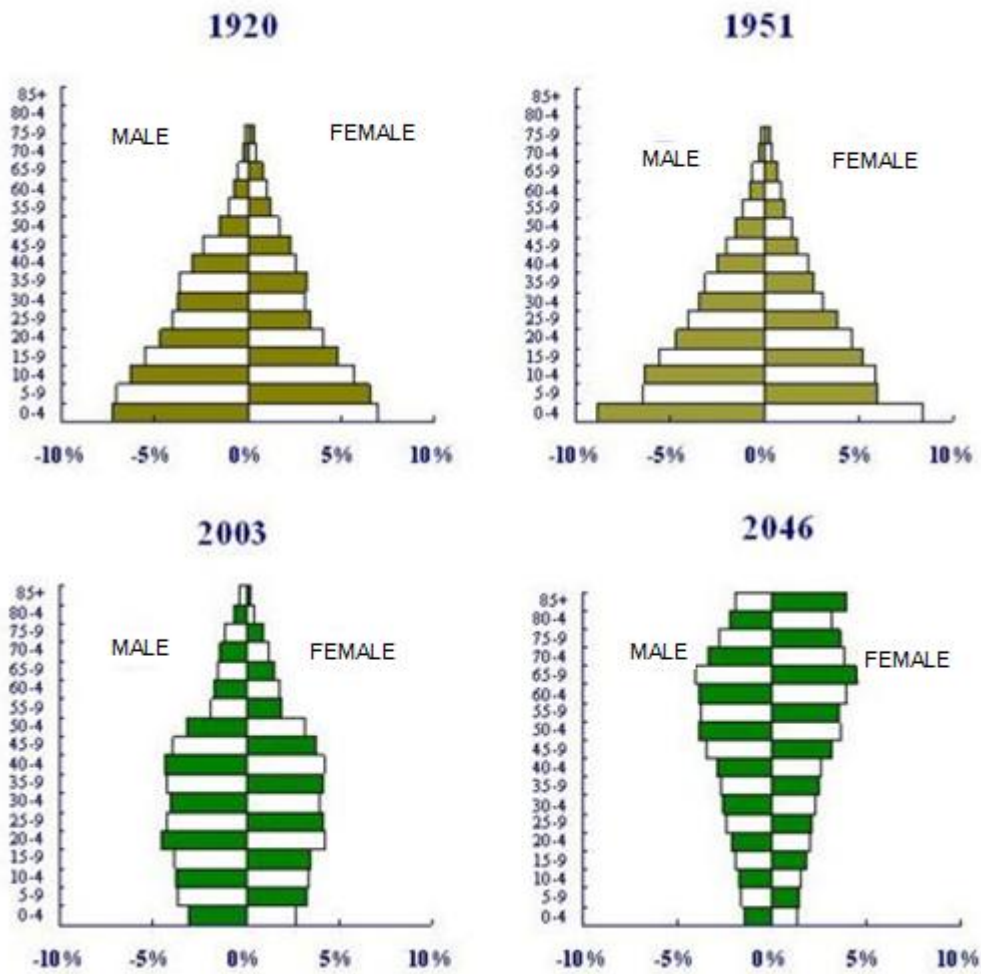


Fig. 3.1.3.4 Taiwan Population Age Structure 1920—2046

3.1.4 TECHNOLOGICAL FACTORS

TECHNOLOGY INCENTIVES

According to the report from TWNIC (Taiwan Network Information Center), till January 2009, the population in Taiwan which is connected to the Internet amounts to 15.8 million , represents an Internet penetration rate of about 69%.

Among the Internet population, 71% are over the age of 12. About 13.3 million people are connected via broadband, represents a rate of 61%.

More than 6 million people are connected by wireless networks. Among them, 54% uses GPRS mobile phones, 22% uses 3G, 9% uses WAP.

BARRIERS TO ENTRY AND OUTSOURCING

Since foreign exchange margin trading is legally permitted in Taiwan, potential competitors are several local banks and brokerage firms, as well as foreign brokerage firms which are operating worldwide.

Considering the relatively large geographical coverage of Taiwan, have IBs as promoting channel is an efficient option for brokers who want to have sufficient market presence in the region.

In general, the local banks and brokerage firms in Taiwan suffer from the problem of larger spread and higher transaction costs compare to foreign banks and brokers which offer retail forex trading services. Entering the Taiwan retail forex market has some identical characteristics as the Hongkong market. The barriers exists, however but prohibitive. Finding a market niche is the top priority for a start-up firm, and opportunities exist if the firm can out-run its competitors in aspects of enabling technology and service level.

3.2 MAJOR COMPETITOR ANALYSIS

3.2.1 BANKS IN TAIWAN

The foreign exchange margin trading business in Taiwan is typically conducted by various banks, either being local or international ones. Ever since 1992, foreign exchange margin trading was permitted in Taiwan. Currently 44 foreign exchange designated banks are operating in this business, monthly trading volume is approximately 3 billion USD. The operations of the designated banks are under the supervision of Financial Supervisory Commission in Executive Department which verifies its eligibility and business ethics.

In October 2004, the Central Bank of Taiwan announced the release of permission for financial institutions to trade on clients' behalf. This represents the local demand for sophisticated financial tools to manage local foreign exchange reserves.

A few key ones among the 44 designated banks are selected to represent the typical service level and quality of banks in Taiwan.

(1) Far Eastern International Bank

<http://www.feib.com.tw/>

Established in January 1992, Far Eastern International Bank is one of the leading banks in Taiwan that provides various kinds of banking services with 2,312 employees working in 38 branches across the island, and possesses a net capital of more than 10 billion USD.

Its core business covers individual banking, consumer banking, corporate banking and credit card business.

The bank is listed on the Taiwan Stock Exchange since November 1998.

Trading Types	FX Margin Trading (FXMT)
Account Setup Methods	Branch
Currency Pairs	7 majors and their respective crosses
Maximum Leverage	1:20
Lowest Opening Balance	10,000 USD
Remark	Trade by phone Typical spread 3-5 pips, 2 pips more for entry orders execution. Margin call policy at -70% loss.

(2) Standard Chartered Bank Taiwan

<http://www.standardchartered.com.tw/>

Standard Chartered PLC is listed on both the London Stock Exchange and the Hong Kong Stock Exchange and is consistently ranked in the top 25 among FTSE-100 companies by market capitalization.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1,700 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. Standard Chartered employs almost 73,000 people, representing over 115 nationalities, worldwide.

Standard Chartered derives over 90 per cent of profits from Asia, Africa and the Middle East, serving both Consumer and Wholesale Banking customers worldwide.

Trading Types	FX SPOT FX Forward
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	FX Option IRS (Interest Rate Swap) IR Option
Account Setup Methods	Unknown
Currency Pairs	Unknown
Maximum Leverage	Unknown
Lowest Opening Balance	Unknown
Remark	Only for institutional clients. Detail information upon phone contact.

(3) Cathay United Bank

<https://www.cathaybk.com.tw/>

Cathay United Bank is a wholly owned subsidiary of Cathy Financial Holding Company, the largest financial holding company in Taiwan. The Bank is a full-service bank serving consumers and businesses with over one hundred domestic branches and over ten overseas offices, offering both individual and corporate banking. The core business covers banking, insurance, trust and securities services through our parent company and affiliated companies.

Trading Types	FXMT
Account Setup Methods	Branch
Currency Pairs	7 majors and crosses
Maximum Leverage	1:10
Lowest Opening Balance	10,000 USD
Remark	Only for institutional clients.

Trade by phone or written confirmation. Minimum T+2, no intraday trading allowed.
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(4) Shanghai Commercial & Savings Bank

<http://www.scsb.com.tw>

First established in Shanghai in 1915, Shanghai Commercial & Savings Bank, Ltd. (SCSB) is today one of the largest privately held banks in Taiwan.

Together with its subsidiary Shanghai Commercial Bank Ltd. (SCB) in Hong Kong, SCSB manages total consolidated assets of US\$ 22.4 billion and capital of US\$ 452 million, and has a shareholder's equity of US\$ 1.45 billion. It also manages over US\$3 billion of private wealth and achieved FX transactions volume of USD70 billion.

It employs over 3,600 staff and operates 106 branches worldwide. In Taiwan, it operates 59 branches and employ over 1900 staff.

SCSB is the only Taiwanese bank with a full Greater China network, and is the first bank in Taiwan to receive approval in 2002 from the government to conduct direct remittances with financial institutions in China. The Bank operates the largest volume of remittances from Taiwan to China and is reputed to offer the “fastest possible remittance between Taiwan and China.”

Trading Types	FXMT
Account Setup Methods	Branch
Currency Pairs	7 majors and 2 crosses
Maximum Leverage	1:10
Lowest Opening Balance	10,000 USD
Remark	Trade by phone. Typical spread 10 pips, 2-3 pips extra for entry orders execution. Margin call policy at -75% loss.

(5) First Bank

<http://www.firstbank.com.tw/>

First Commercial Bank is the outgrowth of merger of the Savings Bank of Taiwan (established in 1899), Chia-I Bank (established in 1905), The Commercial and Industrial Bank of Taiwan (established in 1910), and Hsin-Kao Bank (established in 1916). Of these four banks, the Savings Bank of Taiwan and The Commercial and Industrial Bank of Taiwan were previously jointly owned by Chinese and Japanese, while Chia-I Bank and Hsin-Kao Bank were originally owned entirely by Chinese in Taiwan. The Japanese eventually controlled the managements, and the amalgamation took place in its final form in 1923.

After Taiwan was restored to the Republic of China in 1945, the Bank was taken over from the Japanese. In 1949, the Bank was renamed the First Commercial Bank of Taiwan. In 1967, the Bank obtained its foreign exchange business license and became one of the major foreign exchange banks in Taiwan. In order to provide more efficient services to our customers, the Bank installed on-line system in 1978 and joined the SWIFT in 1985. The bank offers the business service areas of export, import, remittance, foreign currency deposits, and margin trading, etc.

In January 1998, Taiwan Provincial Government released part of its ownership and reduced the total government-owned shares of this bank to 39.36 %, First Commercial Bank therefore completed its privatization process at that time and became the largest private commercial bank in Taiwan.

The rating of the First Bank by Fitch, Moody's, and Standard & Poor's are respectively BBB+, A3, BBB+ for long term, and F2, P-1, A-2 for short term.

Trading Types	FXMT
Account Setup Methods	Branch
Currency Pairs	6 majors
Maximum Leverage	1:10 to 1:20, depend on credibility of client
Lowest Opening Balance	10,000 USD
Remark	Trade by phone, fax or written confirmation. Margin call policy at -75% loss.

3.2.2 FOREIGN EXCHANGE BROKERAGE IN TAIWAN

The information regarding local brokerage firms in Taiwan which offer foreign exchange margin trading service is comparatively little. The trading community in Taiwan is more likely to recognize the brokerage services offered by international firms from US, UK and Japan.

Also Hongkong brokerage firms are observed to have Introducing brokers to represent them in Taiwan. The details will be discussed in the following section 3.3 Multilayer Marketing Analysis.

A few of the key foreign brokers which operate in Taiwan are selected as examples to show the difference of services offered by banks and brokerage firms.

(1) FXCM Asia

<http://www.fxcm-chinese.com/>

Established in 1999, FXCM is currently one of the largest and most successful international foreign exchange brokerage firms which possess over 100,000 real accounts and a registered capital of over 100 million USD. FXCM generates trading volume of 350 billion USD per month. It is regulated in US, UK, Canada and Hongkong. It operates through FXCM Asia—which is a member of FXCM Group with headquarter in Hongkong—to cover the Taiwan market.

Trading Types	FXMT
Account Setup Methods	Internet, Fax
Currency Pairs	30
Maximum Leverage	Up to 1:400
Lowest Opening Balance	2,000 USD for Standard; 25 USD for Mini
Remark	Multiple online trading platform (Tradingstation, Metatrader, Active Trader) Typical spread 2-3 pips.

(2) Easthill Japan

<http://yesworld.chinayes.com/>

Easthill Japan Co. Ltd was established in June 2004, with a net capital of 320 million USD. The core business covers financial futures trading service, investment consulting, and foreign exchange margin trading. In year 2006, Easthill was regulated by the Financial Services Agency of the Japanese government.

Easthill operates in North America, Europe, Africa and Asia-Pacific regions, offering online foreign exchange trading services to both individual and corporate clients worldwide, as well as to hedge funds and other financial institutions.

Trading Types	FXMT
Account Setup Methods	Postal mail
Currency Pairs	12
Maximum Leverage	Up to 1:100
Lowest Opening Balance	10,000 USD for Standard; 2,000 USD for Mini
Remark	Online trading system: Horizon FX Typical spread 3-7 pips.

Overall, the banks in Taiwan offer foreign exchange trading service merely in the same way as the banks in Hongkong and Mainland China. Compare to most international brokerage firms, they suffer from the problem of obsolete trading technology infrastructure, poor execution speed and higher transaction costs. Some of their services are extended to corporate clients only.

As a consequence, the banks presents poorly in the retail foreign exchange trading market, it is ideal for clients with large amount of capital who demands for greater security on fund, or traders implement medium to long term trading strategy in which transaction speed and costs do not play an important role. For small retail clients, the international brokerage firms are still the major choice.

3.3 MULTI-LAYER MARKETING ANALYSIS

Major international foreign exchange brokerage firms tend to operate in Taiwan with Introducing Brokers. While some of the IBs are local individuals or institutions which operate through a representative office—or at least—an online presence, some firms choose to operate remotely without physical presence in Taiwan. These IBs operate by phones and emails to complement their online presence. They may be called ‘the Asian-division of the mother firm’, to be more proper.

As indicated in the previous section, the information regarding local brokerage firms in Taiwan is hardly available on the Internet. The reason for such lack of online presence is still unknown. At the contrary, Introducing Brokers for international firms are actively participating in the business. A few of the IBs for international brokers are listed below

Broker	IB	Location	Communication Methods	Website	Remark
GFS	Golden Fame Global Limited	N/A	Website, E-Mail, Fix-line (UK)	http://www.fxgfg.com/	
Interbank FX	Sunlin International Financial Consultants LTD	Tainan	Website, E-Mail, Fix-line, Fax, Office	http://www.sunlin88.com/	
FXDD	FXLF	Zhanghua	E-Mail, Blog, Office	http://tw.myblog.yahoo.com/s-tone-0922424878/	Individual IB
	Sanwan Club	N/A	Blog	http://blog.sina.com.tw/domainic911911/	Individual IB
MGFOREX	MG Financial	N/A	Website, E-Mail, Fix-line, Fax, Skype	http://www.mgforex.com/cht/	
FOREX	FOREX ASIA	N/A	Website, E-Mail, Fix-line	http://www.forex.com/chinese/	
IFC Markets	IFC Asia	N/A	Website, E-Mail, Fix-line, Skype	http://www.ifcmarkets.com/cf	
ForexClub	Forexclub Asia	N/A	Website, E-Mail, Fix-line	http://www.fxclub.com/tch/	
CMS	3A Forex	N/A	Website	http://3a-forex.com/	
Emperor Financial Service Group	MW801	N/A	Website, E-Mail, Fix-line, QQ, ICQ, YM, MSN	http://www.mw801.com/	

Table 3.3 Selection of Foreign Exchange Introducing Brokers in Taiwan

The regulation regarding Foreign Exchange Introducing Brokers by Taiwan government define that eligible institutional IBs should be of 0.1 billion NTY (3 million USD) at least in registered capital. Any institutional client of the IB shall not make single investment which is larger than 10% of the IB's total equity, and any single investor shall not invest more than 20% of the IB's total equity.

The senior traders of the institutional IB shall be no less than half of the total traders. Change of senior traders shall first be approved by the Central Bank of Taiwan. The IB shall report to the Central Bank of Taiwan on a monthly basis about its business situation.

In view of the IBs given, most of them do not have physical presence in Taiwan. Rather they operate on a remote basis through online mediums. Considering also the rare online presence of local brokerage firms, it forms a norm that the brokers who have physical presence are less willing to present themselves online, while the firms which do not own a physical presence tend to complement their business by Internet methods.

Economically speaking, most of the business ongoing in Taiwan is concentrated in the northern part of Taiwan, the Taipei city and its surrounding port cities are the financial hubs of Taiwan. It is reasonably assumed that most of the local brokerage firms shall conduct their business with physical presence in this region.

The individual IBs in Taiwan are generally operating online with their Blogs on famous local online communities. The more active individual IBs even conduct their own trading seminars and give trading signals & ideas to their clients for free in order to attract and maintain client base.

Some of the IBs currently operating in Taiwan are individuals that engage in Foreign Exchange trading. They take the opportunity to become the brokers' IBs to extend their source of income, while get better trades due to compensation.

As for the IBs' websites, only a few of them are professionally designed—which mostly inherited from their home offices' websites. Since most of the IBs are individuals, they mainly promote by blogs or forums, some of them have stand-alone websites, but poorly designed.

These websites are relatively 'easier' to find—which is crucial for an IB to stand-out among competitors, since not much Foreign Exchange traders are willing to spend considerable amount of time and effort just to find an IB.

The communication methods between IBs and clients are mainly through the Internet; this involves Websites, Emails, Forums, MSN, Skype...etc. Some of the brokerage firms and institutional IBs have representative offices that allow face to face communication, and also provides fix-line numbers dedicated for customer service. A summary of the different communication methods the firms utilize is shown in Figure 3.3.2. As the given data shows, communicate with clients by websites, emails and phones are the major communication channel chosen by most firms and IBs.

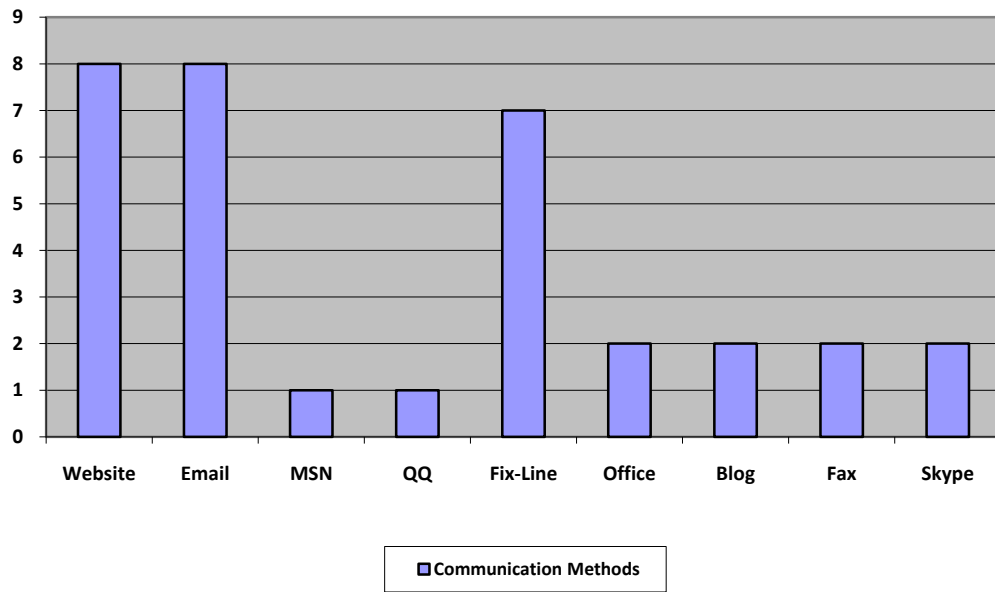


Fig. 3.3.2 Communication Methods Utilized in Taiwan

Another view of the data can be established on the different communication methods utilized by each firm’s IBs. It is a general case that the more communication channels it provides, the more awareness it has among traders. This is elaborated in Figure 3.3.3.

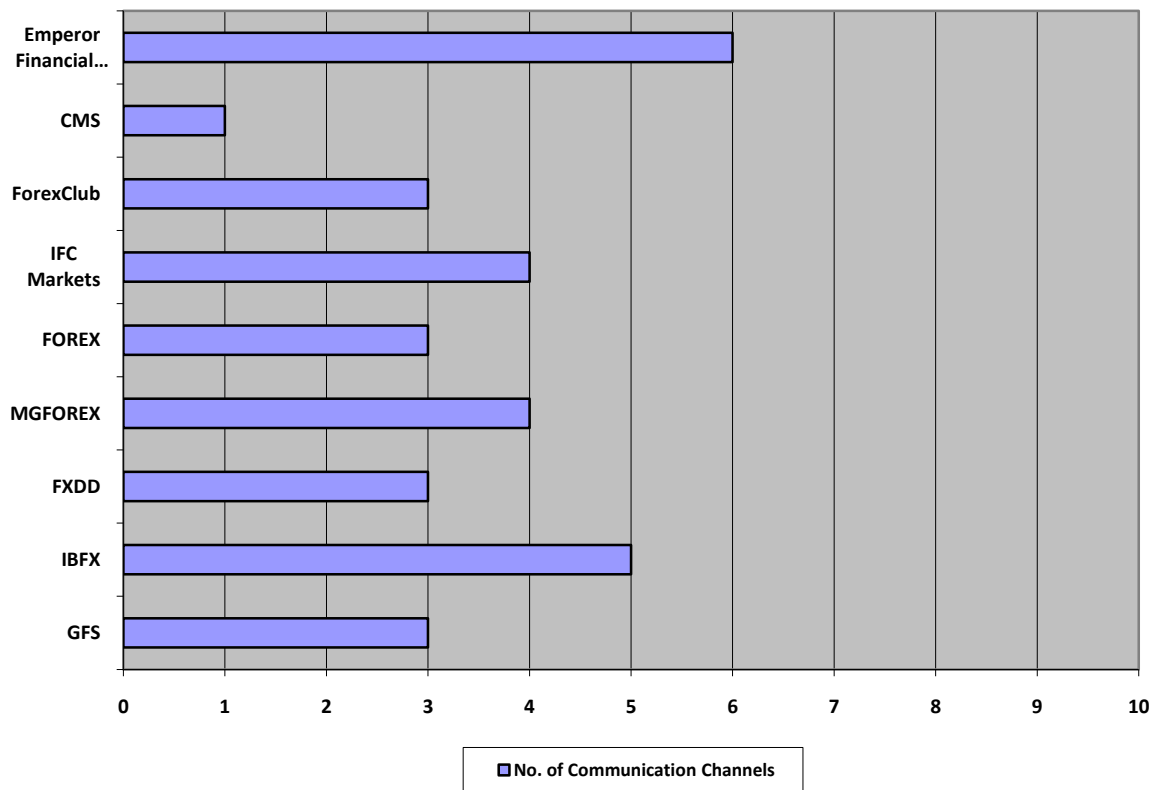


Fig. 3.3.3 Communication Methods Utilized in Taiwan by Each Broker (IBs Combined)

3.4 IPO ANALYSIS

Traditionally, Taiwan, together with Hongkong, Singapore and Thailand has been regarded as the 'leading four small economies' in Asia. The Taiwan stock market has certain advantages in terms of financial strength and economical factors. These advantages may include:

- A. Stable overall growth of the regional economy.
- B. Geographically and strategically present as the hub of the Asian market.
- C. Growth by industry clusters, provide stimuli for economic development.
- D. The Integrated Circuit (IC) industry of Taiwan is among the top of the world.
- E. Taiwanese business people make investments which diversify around the world market.

Geographically speaking, Taiwan is located in the center of the Asian-Pacific region. It is one of the most important transfer terminals that connect East Asia and North America. The average length of flight from Taipei to the seven major cities on the west Pacific coast is just about 3 hours. The ocean freight time between Kaohsiung port and the five major Asia-Pacific ports are on average 53 hours. On top of that, Taiwan is the board for multinational enterprises to set their foot in Mainland China market. It possesses predominant economical and strategic positions.

The IC industry of Taiwan has major market shares of the world. 98.3% of the Motherboard and 93.2% of the Notebook PCs produced in the world are either produced entirely in Taiwan or at least, have parts of them produced in Taiwan.

During the period from 1998 to 2008, the number of List Companies (No. LC) and listed traded at Counter Companies (No. LCTC) are seen steadily rising. Currently there are more than 1,000 companies listed in the Taiwan Stock Exchange. The graph below elaborated this situation.



Figure 3.4.1 Number of Listed Companies 1998—2008

Over the ten years, the total market value is almost tripled. The ratio of total market value to regional GDP is basically equal to industrialized economies such as UK, Japan and US.

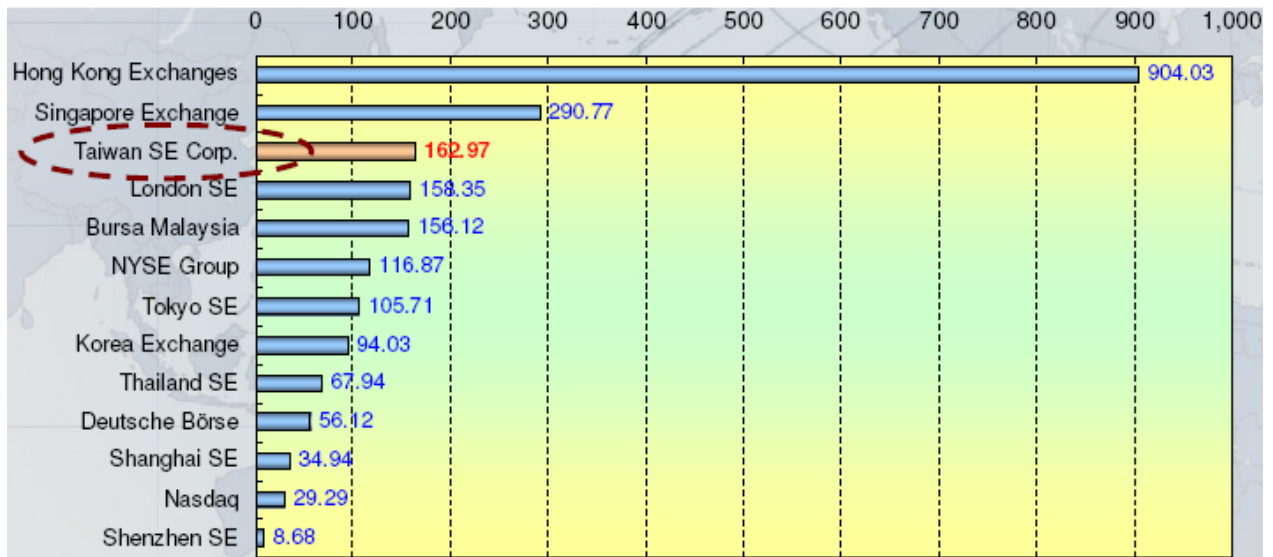


Figure 3.4.2 Market Value to Regional GDP Ratio Worldwide Comparison

In this market, foreign investments play an important role. The foreign investors hold 32.61% of the total share value, and represents 24.4% of the total trading volume. Several of the key stocks have more than 50% of their shares holding by foreign investments.

Taiwan does not only receive foreign investments, but also present as one of the key investors in the Asia-Pacific Region. Its main investments are diversified to Mainland China, Thailand, Malaysia, the Philippines, Indonesia, Singapore, Vietnam and Cambodia.

The Taiwan local government welcomes foreign investors to invest in Taiwan, and also provide provisions that cover the regulation of foreign companies to be listed in the Taiwan Stock Exchange. Back in early 2008, the Executive Department passed 'Plan 123 to promote overseas companies listed in Taiwan'.

A few of the key regulations specified in this plan are explained below:

1. The applied company should not belong to the following categories:
 - a. Registered in Mainland China.
 - b. Individuals or groups from Mainland China which directly or indirectly holds more than 20% of the total shares.
 - c. The enterprise's investment in Mainland China exceeds 40% of its net investments
2. The enterprise should have 3 years of traceable business records before application.
3. The amount of paid-up capital or shareholders equity is greater than 20 million USD. Or, the market value is no less than 50 million USD.

4. The most recent 3 accounting years' accumulated net income before tax exceeds 8 million USD, and the most recent accounting year's net income before tax is no less than 4 million USD.
5. The raised fund shall not be used to invest in Mainland China.
6. Dilution of share holding rights: public sales before listing—registered shareholders shall be no less than 1,000, among which the number of shareholders that holds between 1,000 to 50,000 shares shall be no less than 500, and the sum of shares shall be over 20% of the total share or 10 million shares.

As an open market as Hongkong, the Taiwan stock market provides more opportunity in terms of attracting investors from various source, including international investors. This is not yet possible in Mainland China markets. The history of Taiwan stock market is much longer than Mainland China's, which provides more stable and mature market structure, as well as more realistic valuation of listed firms.

4 BUSINESS OPERATING ENVIRONMENT OF FOREIGN EXCHANGE BROKERAGE IN SOUTH KOREA



4.1 PEST ANALYSIS

4.1.1 POLITICAL FACTORS

POLITICAL STABILITY

Nowadays, South Korea has established diplomatic relations with more than 170 countries around the globe, and joined the United Nations in 1991. In year 2007, the Minister of Foreign Affairs, Mr. Pan Jiwen, became the current Secretary-General of the UN.

Since 2007, South Korea intends to establish Free Trade Area with the European Union, as well as with Canada and Australia.

Historically, the whole Korean Peninsula was occupied by Japan from 1910 to 1945. After the Second World War, the north of Korea was under the supervision of former Soviet Union, while US was in charge of the south. The cold war separated Korea into two parts in 1948. The Korean War started right after that in 1950. The war ended 3 years later, and formed the current North Korea and South Korea government.

Currently, the only possible threat to the national safety of South Korea is from North Korea. Interests from both sides have been expressed in previous years that concern the re-union of the two sides of the island into one country. In the Olympics in 2000 and 2004, North and South Korea national teams were joint into one to participate in the opening ceremony. Although recently due to the political cloud of North Korea is not yet clear, however the political stability of South Korea has not yet being seen to be severely affect.

POLICY RESTRICTIONS

The Korean government does not have restrictions on Foreign Exchange Margin Trading, both institutions and individual investors are permitted to trade Forex.

TAX POLICY

TAXATION OF FOREIGN CORPORATIONS

A foreign corporation is liable to pay corporation tax only on the income derived from sources within Korea. However, no corporation tax is levied on the liquidation income of a foreign corporation.

Corporation tax on income from domestic sources of a foreign corporation is assessed and collected in the same manner as that applied to a domestic corporation. With respect to the income from domestic sources of a foreign corporation which has no domestic place of business, the full amount of corporation tax withheld thereon at source is payable to the government.

The provisions of tax laws with respect to calculation of taxable income and tax amount, assessment, collection tax withholding and reporting for domestic corporations are applicable mutatis to foreign corporations having a domestic place of business. However, any special provisions for foreign corporations are preferentially applied thereto.

The corporate income tax rate for general corporations is 13% for income which is less than 100 million Won (USD 73,651). The tax rate is 25% on all income over 100 million Won.

TAXATION OF FOREIGN INDIVIDUALS

A non-resident is liable for tax only in respect of income derived from sources within Korea. Two kinds of taxing method, global taxation and separate taxation, are applied in the case of

a non-resident. With respect to the non-resident who has a domestic business place and who has real estate income (excluding the case of capital gains from transferring land or building), the global taxation method is applied on the aggregate domestic source income except for the retirement allowance, capital gains and timberland income. The latter incomes of a non-resident are taxed on the same basis as that applied to a resident.

With respect to the income of a non-resident who does not have a domestic business place, the withholding of taxation method is applied on each domestic source of income. A non-resident is required to pay income tax at the domestic business place. In the case of a non-resident who has no domestic business place, income tax has to pay at the place where such income is derived.

Income is classified according to the following: global income, retirement income, capital gains, and income taxed separately by withholding. Global income is taxed at progressive rates while retirement income and capital gains are taxed separately at different rates.

The following falls under the global income classification: interest income (excluding interest taxed separately), dividend income (excluding dividends taxed separately), real estate rental income, business income and professional income, employment income, and other income. Taxable income is computed as gross income less all allowable deductions and allowances. Income is then aggregated and taxed at progressive rates.

The tax structure is as follows:

Taxable Income, KRW (USD)	Tax Rate
Up to 12 million (USD 8,838)	8%
12 million—46 million (USD 33,880)	17% on band over USD 8,838
46 million—88 million (USD 64,813)	26% on band over USD 33,800
Over 88 million (USD 64,813)	35% on all income over USD 64,813

4.1.2 ECONOMIC FACTORS

ECONOMIC GROWTH

Unlike most countries in Asia, South Korea is a developed country. It is now the 13th largest economy in the world, and member of OECD (Organization for Economic Cooperation and

Development) and G20 (Group of Twenty Finance Ministers and Central Bank Governors), as well as the founder of APEC (Asia-Pacific Economic Cooperation).

After the Korea war between North and South Korea which lasted from 1950 to 1953, the economy of South Korea experienced rapid growth. South Korea is now among the lead in Information and Communication Technology industry even from a worldwide perspective. Its Internet infrastructure, mobile phones, and LCD monitors are just a few examples of their leading products. Also, South Korea is strong in shipbuilding, tire, steel, textile industries, as well as automobile manufacturing.

Today, South Korea is classified as a high income economy by the World Bank and an advanced economy by the IMF and CIA. Its capital, Seoul, is a major global city and a leading international financial centre in Asia. South Koreans enjoy one of the highest living standards in the world and have high life expectancy and a high level of economic freedom.

The economy of South Korea has been growing steadily and rapidly, especially in the recent decades. The current GDP of South Korea ranks the 13th among the world. The current GDP has exceeded 1 trillion USD. The GDP per capita is quite high compare to other developing Asian countries, which is 27,646 USD in 2008.

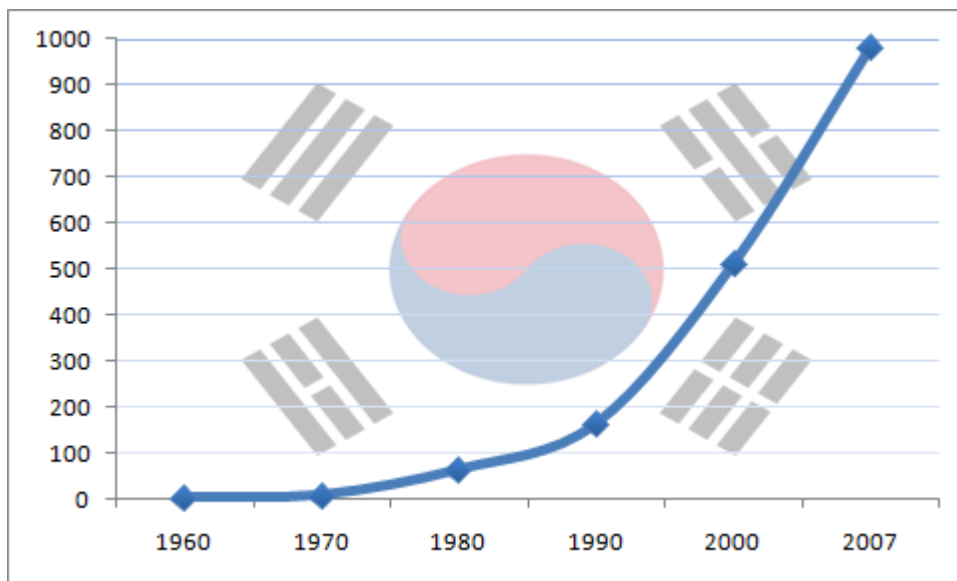


Fig. 4.1.2.1 South Korea GDP Growth from 1960s to current

Due to the effect of recent global financial crisis, the economy is estimated to grow by 2.1% in 2009, marking its worst performance since a 6.9 percent fall in 1998 in the Asian financial crisis. Growth is expected to pick up to 3.8% in 2010, still below the 5% pace recorded in the past two years.

FOREIGN EXCHANGE RESERVES

The foreign exchange reserve of South Korea historically ranks No. 6 in the world, after Mainland China, Japan, Russia, Taiwan and India. At the beginning of year 2009, the total amount is about 200 billion USD.

However due to the impact of recent global financial crisis, this amount is only sufficient to repay short-term debt of the nation, which is 194 billion USD. Since April 2008, the drop in value of KRW against USD forced the South Korean Government to sell USD on the global market tremendously in order to stabilize the exchange rate.

To overcome this difficulty, the South Korea government applied strategies that include making overseas loans, and gain help from surrounding large economies such as China. In March 2009, the reserve figure raised to 202 billion USD, and by the end of May 2009, it increased to 227 billion USD, which is the largest amount recorded since 1997.

INFLATION RATE

Affected by the recent global financial crisis, in 2008, the CPI of South Korea raised to about 5%, which is the record high in the past one decade. Entering 2009, the CPI rate is gradually declining, to less than 3%. It is estimated in the 3rd quarter of 2009, CPI will fall to 2%.

STOCK MARKET AND REAL-ESTATE MARKET

During the recent financial crisis, the KOSPI Composite Index of Korea Stock Exchange basically went through the same story as most other countries in the world experienced.



Fig. 4.1.2.4 South Korea KOSPI Index 1998--2009

During the history of Korea Stock Exchange, the 1997 Asian financial crisis and early 2000 Internet bubble burst all caused severe damage to the market value. The recovery from 2003 till 2008 almost tripled the market index, while in 2008 to early 2009, the drop due to recent crisis slashed the market value in half.

The index reached its record high in the end of Oct 2007 at 2,280. The temporal bottom was formed one year later in Oct. 2008, at 938. The drop counting from top to bottom is roughly 60%. Currently the index has retraced to 1,400. The mid to long term outlook of the stock market is still unclear.

The real estate market in South Korea behaves somehow differently from other Asian economies. The housing price has been increasing dramatically over the past decades, especially in capital areas. Even the recent financial crisis has not yet been able to make the bubble burst. The prices are current stalled rather than to decline.

The high housing price is considered a serious problem not only to enterprises, but also for individual citizens. It is estimated that a regular Korean family needs to the amount which is roughly equal to the sum of their 10 to 20 years' salary to buy a medium size apartment in the capital's downtown areas.

However, the effect of the financial crisis might take place in late 2009 and 2010; predictions stated that the housing price may drop over 25% in the coming year.

EXCHANGE RATES



Fig 4.1.2.5 Exchange Rate Chart KRW VS. USD 2008—2009

The current exchange rate between USD and KRW (Korean Won) is 1:1250. KRW has raised significantly in the past few years against USD. Although the recent financial crisis caused KRW to fall 31% in value against USD.

INTEREST RATES

The benchmark interest rate set by South Korean Central Bank was at 5.25% in mid-2008, which is the record high in the past 8 years. In the financial crisis in 2008, the Central Bank changed its policy to ease the impact of the downturn. Six consecutive cut of interest rate bring the current level to 2% in mid-2009. It is estimated that the current rate will remain unchanged till later this year. To avoid the spread of liquidity and rising asset prices, it is predicted that the Central Bank will raise the interest rate in the 4th quarter of 2009.

4.1.3 SOCIAL FACTORS

EDUCATION

Korea is among the ancient civilizations which expanded through 5,000 years of history. There has been close contacts between ancient Korea and ancient China, therefore the traditional culture of Korea is deeply affected by the Chinese culture, although with its distinct characteristics.

An extremely competitive education system and a highly skilled and motivated workforce are two key factors driving this knowledge economy that has the world's highest scientific literacy and second highest mathematical literacy.

Young people in South Korea's workforce are more likely to have achieved an upper secondary education than anywhere else in the developed world. They are also among the most likely to have university degrees, shows an annual education report from the OECD. It has invested heavily in education as a central part of its economic future.

It is now in first place in terms of the proportion of younger people who have completed an upper-secondary education – with 97% leading a small group of countries, including Norway and Japan, where more than 90% of pupils reach this level.

In terms of the proportion of population entering higher education, there has been a similar upwards leap by South Koreans. For university participation among younger population in Korea, it is now third, behind Canada and Japan.

South Korea was also the first country in the world to provide high-speed internet access from every primary, junior, and high school.

LABOR AND WAGES

The average yearly wage in South Korea is 30 million KRW (24,000 USD), wages rarely falls below 20 million KRW (16,000 USD)—which is only in the case of manual laborers. In leading international enterprises such as Samsung, the wages could reach 50 million KRW (40,000 USD).

Examples of wage bands for different industries are as follows:

Finance: 35 to 42 million

Scale Manufacturing: 30 to 35 million

Small to Medium Enterprises: 25 to 30 million

Different occupations yield different returns, although most ranges in between 20 to 50 millions.

Administrators of companies are the highest paid, making about 4 million KRW (3,200 USD) a month. Followed by certified professionals including doctors and lawyers, who earn 3.4 million KRW (2,700 USD) per month on average. The pay for engineers is 3 million KRW (2,400 USD), and office workers earn 2.76 million KRW (2,200 USD). The lower paid people are in occupations like soldiers, farmers, timbermen, fishermen, equipment operators and machinery assemblers who earn on average 2.3 million KRW (1,850 USD). The employees in service and sales are paid at 1.78 million KRW (1,424 USD), while manual laborers earn only 1.1 million KRW (880 USD).

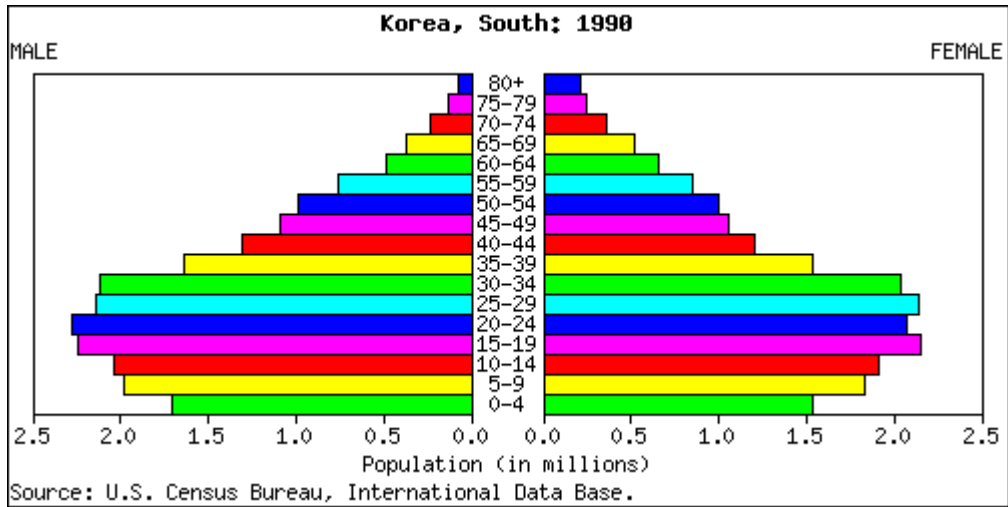
For fresh graduates, the wages are also determined by their different educational levels, a higher level of education brings higher incomes.

POPULATION GROWTH AND AGE DISTRIBUTION

The current population of South Korea is about 50 million; the absolute majority ethnic group is Korean.

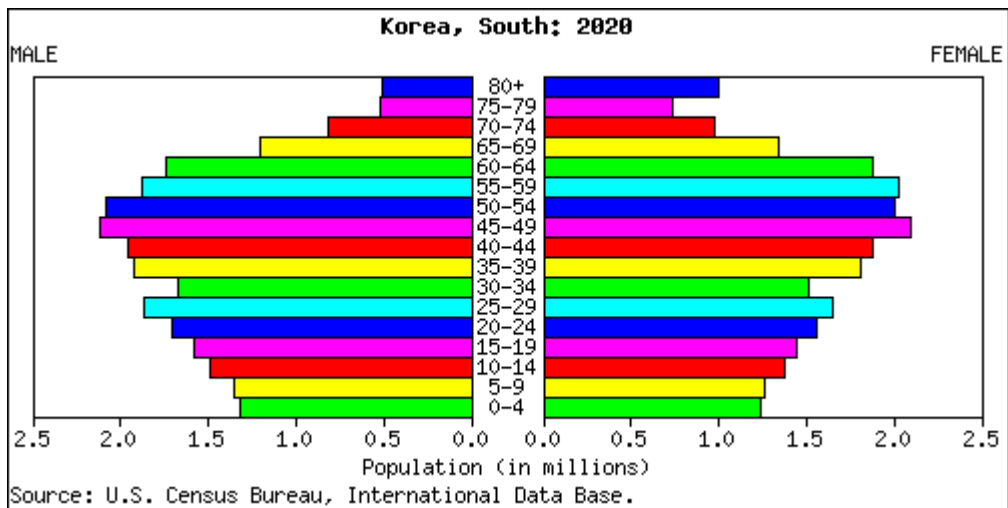
KOREA, SOUTH POPULATION PYRAMID FOR 1990

Age and sex distribution for the year 1990:



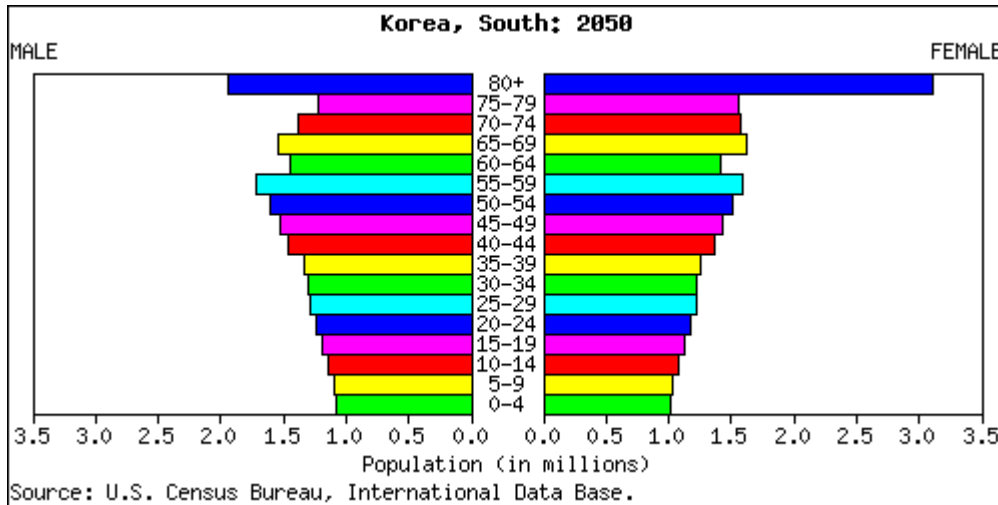
KOREA, SOUTH POPULATION PYRAMID FOR 2020

Predicted age and sex distribution for the year 2020:



KOREA, SOUTH POPULATION PYRAMID FOR 2050

PREDICTED AGE AND SEX DISTRIBUTION FOR THE YEAR 2050:



South Korea also faces the problem of aging population. The structure of the society is dramatically changing over the years, especially after 2020.

4.1.4 TECHNOLOGICAL FACTORS

South Korea boasts the world's highest broadband internet access per capita and is the most wired country in the world. In 2007, the Economist Intelligence Unit ranked South Korea's IT Industry Competitiveness among the top three in the world.

Currently, more than 70% of the total population (35 million people) in South Korea is gained Internet access. Broadband access represents more than 80% of total. Wireless network is well developed in South Korea, especially in the capital surrounding areas. 3G technology is moving forward according to the plan of the government. It is estimated in 2010, the coverage of 3G services will be 10% of the total population, reaching all the cities of South Korea.

4.2 MAJOR COMPETITOR ANALYSIS

4.2.1 BANKS IN SOUTH KOREA

As in other regional economies, the local banks of South Korea play an important role in providing foreign exchange trading services. This section is dedicated to introducing major banks that actively participate in the FX business. However due to certain information are not readily available on the Internet, or only available in local language, the details of the services these banks offered is not gathered.

South Korea has in total about 20 local banks, as well as subsidiaries of foreign-owned banks which include ABN AMRO, Citibank, HSBC, Bank of America, Deutsche Bank...etc.

1. Korea Exchange Bank

<http://www.keb.co.kr/>

Established in 1967, as a government-owned bank specializing in foreign exchange, KEB came to hold an unrivalled position in trade finance and global finance. After privatization in 1989, the bank became one of Korea's premiere commercial banks with presence in both corporate and private banking fields.

KEB is the industry leader in foreign exchange business in Korea. It possesses more than half a billion USD in net profits yearly before the recent world financial crisis.

The bank provides inter-bank FX trading, which includes KRW/USD and G7 currencies. It is one of the major market-makers in Seoul FX Market. KEB maintains the market dominance in the inter-bank FX trading since the introduction of the free-floating exchange rate system at 1997; it occupies approximately 30% of the customer related foreign exchange transactions in the domestic market and keeps dominance in the market competition. KEB performs the role of chairman for Seoul FX Market Committee and Korea FOREX Club over the years, two major organizations of Seoul FX market.

2. Korea Development Bank

<http://www.kdb.co.kr/>

The Korea Development Bank (KDB) was founded in 1954 in accordance with The Korea Development Bank Act for the purpose of supplying and managing major industrial capital to help develop Korean industries and the national economy.

In particular, KDB made a significant contribution to the country's recovery from the Asian financial crisis by taking the lead in the restructuring of ailing companies. More recently, KDB has exerted efforts into nurturing innovative SMEs and venture companies, assisting balanced national development, and expanding future growth engines.

As a premier provider of value-added risk management solutions, KDB is considered an established market maker in local and international foreign exchange markets, offering global execution, quoting competitive prices in all tradable currencies including the KRW, and providing liquidity.

The Bank's range of foreign exchange products includes:

- Spot Foreign Exchange
- Forward Foreign Exchange

- Foreign Exchange Swap
- KRW Non-Deliverable Forwards and Swaps

3. Shinhan Bank

<http://www.shinhan.com/>

Headquartered in Seoul, Korea, historically it was the first bank in Korea, established under the name Hanseong Bank in 1897. The bank was reestablished in 1982. It is part of the Shinhan Financial Group, along with Jeju Bank. Shinhan Bank merged Chohung Bank on April 1, 2006.

Shinhan Bank started as a small enterprise with a capital stock of KRW 25.0 billion, 279 employees, and three branches on July 7, 1982. Today, it has transformed itself into a large bank, boasting total assets of KRW 176.9 trillion, equity capital of KRW 9.7 trillion, 10,741 employees, and 1,026 branches as of 2006. Total deposits and net income amounted to KRW 105.3 trillion and KRW 1.4 trillion, respectively.

4. Jeju Bank

<http://foreign.e-jejubank.com>

Incorporated in Jeju Island in 1969, Jeju Bank had been posting a healthy growth amid the strong support of the Jeju residents, playing a central role in the development of the island's local economy.

Joining the Shinhan Financial Group in May 2002, Jeju Bank has cemented its position as the most convenient bank to use for local residents with the largest sales network on the island, fulfilling a role as the bank closest to the local customers. Becoming a subsidiary of the Group provided Jeju Bank with a new springboard to make a leap forward.

5. Woori Financial Group

<http://www.woorifg.com/>

Woori Financial Group was established as Korea's first financial holding company in 2001. Since its launch, the group has achieved remarkable growth in the banking business, and continued to expand its non-banking businesses through mergers and acquisitions and joint investments. As a result, the group became South Korea's representative financial group.

The group consists of eminent eight subsidiaries; include Woori Bank, the nation's second largest commercial bank, two regional banks (Kwangju Bank and Kyongam Bank). Woori Investment & Securities, one of the leading security firms. Also Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori Private Equity and Woori Finance Information System.

The group employs some 23,000 people through 1,300 domestic and overseas networks, serves more than 17 million corporate and retail customers. The services cover commercial banking, credit card, capital market, investment banking, asset management, security brokerage, and leasing.

The Woori Group is to-date the largest financial group in South Korea.

6. Hana Financial Group

<http://www.hanafn.com/>

Hana Financial Group is a South Korean holding company whose flagship subsidiary is Hana Bank, the third largest bank by asset value in South Korea. Hana Financial has a total of 10 subsidiaries. Apart from Hana Bank, other subsidiaries include Daehan Investment & Securities Co.

Hana Financial Group is the 3rd largest commercial banking group in South Korea (after Kookmin Bank and Woori Bank) and was established in 1971. The bank reached its current size by four mergers since 1998; the two largest are with Boram Bank in 1999 and with Seoul Bank in 2002. The largest single shareholder at time of listing was U.S. investment bank Goldman Sachs.

Compared to the other leading domestic bank groups Hana Financial Group has an above-average asset quality. This is among other things a result of its comparatively small credit card business and the Bank's concentration on high net-worth individuals and SME-business.

The group also has one subsidiary asset management company which is a joint venture with UBS. It manages over 20 billion USD invested assets currently.

7. Kookmin Bank

<http://www.kbstar.com>

Kookmin Bank is the largest bank by both asset value and market capitalization in South Korea.

The Bank, together with its subsidiaries, provides commercial banking services to individuals, and small and medium sized enterprises in South Korea. It primarily engages in generating deposits and originating loans. The company's deposit products include demand deposits, time deposits, savings deposits, and negotiable certificates of deposit. Its lending portfolio comprises impaired and non-impaired corporate loans, consumer loans, and credit card loans.

The company's activities also include dealing with and brokerage services for futures transactions; development, management, and brokerage with regard to real estate and trust; the provision of security investment trust and investment consulting services; and the provision of credit checking services and insurance services, as well as engages in foreign exchange operations and house construction. In addition, it invests in venture business and provides software services. Kookmin Bank operated 1,132 branches in South Korea and 3 branches internationally, as well as 216 automated teller machine stations. The company was founded in 1963 and is headquartered in Seoul, South Korea.

4.2.2 FOREIGN EXCHANGE BROKERAGE IN SOUTH KOREA

Foreign Exchange brokerage firms are also active in South Korea to provide FX trading services to local customers. These firms include foreign and local brokers. Although small local brokers do not have sufficient online presence or are not presented in English, despite the difficulty in language differences, it is still possible to locate several premiere inter-broker dealers that occupy the Korean market of Foreign Exchange and other financial derivatives.

1. BGC Partners

<http://www.bgcpartners.com/>

BGC Partners is a brokerage firm provides trade execution, clearing, and settlement services to banks, investment banks, and other brokerages. A spinoff of Cantor Fitzgerald, the company specializes in fixed-income securities, foreign exchange, derivatives, futures, and money markets. It also provides market data. The company has about 15 offices worldwide.

In May 2007, BGC Partners opened up a new office in Seoul following the grant of a license to offer Foreign Exchange brokerage services in South Korea.

BGC sees Korea as an important market to further enhance its existing product and service capabilities in the Asia region, whilst also migrating onshore to aid the growth and development of the local Korean foreign exchange brokerage market.

The opening of a Korean office represents an ever increasing presence in the Asia-Pacific region for BGC which now has offices in Hong Kong, Seoul, Singapore, Tokyo, Sydney and a representative office in Beijing.

2. Korea Money Brokerage Corp. (KMB)

<http://www.kmbco.com>

KMB was established in July 1996 to develop the deposit market in Korea. Since then, KMB has maintained a stable position in the wholesale financial market. From 1999, KMB began providing broker service for Interest rate swaps and other instruments in the derivatives market, and now KMB plays a leading role in developing the market in Korea.

KMB provides broking services to commercial banks and other financial institutions in the wholesale financial market. As the only integrated broker, KMB deals with the largest liquidity pool in Korea's financial market.

KMB is regulated by the Korea Financial Supervisory Services (FSS) in legislation of Republic of Korea.

3. ICAP

<http://www.icap.com/>

ICAP is the world's premier voice and electronic interdealer broker, delivering specialist intermediary broking services to trading professionals in the wholesale financial markets. The group covers a very broad range of OTC (over-the-counter) financial products and services in commodities, foreign exchange, interest rates, credit and equity markets, as well as data, research and indices.

ICAP was formed by the merger of Garban plc and Intercapital plc in September 1999. ICAP's businesses currently operate in more than 30 countries and with over 4,300 staff worldwide.

KIDB-ICAP is a joint venture between ICAP and KIDB, a leading Korean securities house engaged in the Korean Bond Market. The entity was founded in October 2004. The 19 broking staff are engaged in the Korean Forwards and Foreign Exchange markets as well as the Korean interest rate swaps and cross currency swaps markets. This encompasses the Deliverable and Non-Deliverable markets for the products. There are seven brokerage markets currently in the Forwards market and KIDB-ICAP Foreign Exchange team is one of only four in Korea engaged in the interdealer market for short dated

Korean Won Forwards. It is also the market leader in the KRW interest rate products as well as for the Onshore Forwards market.

4. Tullett Prebon

<http://www.tullettprebon.com>

Tullett Prebon is one of the largest inter-dealer money brokers in the world. It is listed on the London Stock Exchange and is a constituent of the FTSE 250 Index.

The Company was founded by Derek Tullett in 1971 as a foreign exchange broker trading, after several mergers and demerger, in 2007 the company is formed in the current status.

The company operates as an intermediary in wholesale financial markets facilitating the trading activities of their clients, in particular commercial and investment banks. Tullett Prebon organises its broking desks according to the way its customers trade. It operates in eight product areas: Volatility, Rates, Credit, Treasury, Non Banking, Energy, Equities and Property.

5. Tradition

<http://www.tradition.co.uk/>

Tradition is the interdealer broking arm of Compagnie Financière Tradition and specializes in broker services for over-the-counter financial products.

Compagnie Financière Tradition is in the brokerage of financial and commodity related products. Founded in 1959, the group today is one of the largest brokerage companies in the world, with offices in 24 countries. Globally, the group has over 3,000 institutional clients and employs over 2200 people, 600 of whom are based in London. Compagnie Financière Tradition shares have been listed on the Swiss Stock Exchange since 1973.

6. GFI

<http://www.gfigroup.com/>

In 1987, GFI Group was founded in New York as first broker of over-the-counter US government bond options. Founded in 1987, GFI provides competitive inter-dealer brokerage services in a multitude of global over-the-counter (“OTC”) cash and derivatives markets, including credit derivatives and fixed income, financial derivatives, cash equities and equity derivatives, energy and commodities. GFI is an industry leader in various

credit, financial, equity and commodity markets according to recent market surveys published by Risk and Energy Risk magazines.

Headquartered in New York, GFI employs more than 1,700 people with additional offices in London, Paris, Hong Kong, Seoul, Tokyo, Singapore, Sydney, Cape Town, Dubai, Tel Aviv, Dublin, Calgary, Englewood (NJ) and Sugar Land (TX). GFI provides services and products to over 2,400 institutional clients, including leading banks, corporations, insurance companies and hedge funds.

Other International brokerage firms such as DBFX, Citi Fxpro are also active in the Korean FX market. Although the information regarding the market share of each broker is not available, but it is reasonable to assume such brokers are and will provide fierce competition to the industry.

4.3 IPO ANALYSIS

For small to medium size foreign companies to be listed in Korea stock market, the most convenient and efficient way is to apply for listing in KOSDAQ.

KOSDAQ was established in 1996 and started trading in 1997. The purpose of KOSDAQ is to facilitate the financing of high-tech enterprises in the context of a knowledge-based economy. More than half of the stocks listed in KOSDAQ relates to Information Technology, Biotechnology, communication and entertainment.

After several years of development, KOSDAQ has become the 'new star' in the world's Growing Enterprise Market (GEM). It is the third largest GEM in the world, right behind NASDAQ and JASDAQ. Among more than 30 GEM around the globe, the KOSDAQ yearly trading volume ranks No.2, total market value ranks No. 4, total number of listed enterprises ranks No. 5. In Asia, it is the second largest GEM, after JASDAQ in Japan.

There are many advantages relate to listing in KOSDAQ.

First of all, the cost of listing is much lower than the rest of the world. It is roughly half the amount compares to listing in Hongkong.

Second, KOSDAQ has among the best liquidity in the world, as well as various sources of foreign investments. About 45% of the total investments in KOSDAQ come from abroad of Korea. The market value turnover is almost 900%, which is 3 times comparing to NASDAQ (283%), 7 times comparing to JASDAQ (123%).

Third, judging from the perspective of local investments, due to the availability of highly integrated network infrastructure across South Korea, majority of traders complete their trades online, this is especially the case for individual traders.

Fourth, IPO is quite active in KOSDAQ. Since 2000, there are more than 700 enterprises chose to be listed in KOSDAQ. Currently the No. of listing companies in KOSDAQ is almost similar as NASDAQ, and 3 times more comparing to Hongkong GEM and Singapore SESDAQ.

Since 2006, the Korean government admits foreign enterprises to be listed in Korea. The Korea Stock Exchange launched several incentive measures to reduce the complexity of listing regulation for foreign enterprises.

To sum up, listing in KOSDAQ is a competitive option for SMEs in high-tech or relate fields, which will provide the company with sufficient financing opportunities and liquidities, while enjoy less hassles from political and economical point of view.

APPENDIX:

CMC IB ISSUE

In year 2005, the IBs of CMC in China were reported to have ethical issues with their clients in two consecutive cases.

The first case started with an individual IB who used a fake ID to conduct his business. One of his clients deposited 210,000 USD and allowed him to trade on his behalf. This 210,000 USD soon shrunk to 30,000 USD and the IB fled together with the money from all his other clients. The major victim filed an appeal with the Banking Bureau and CBRC in Beijing, however the expected punishment to CMC and its representatives in China did not realize. It was claimed by the Bureau that as regulatory body it could only supervise from institutional perspective to see if there were any violation of rules.

During the victim's interaction with CMC headquarter in UK and representative office in Beijing, nobody was taking the responsibility of his lose. The representative office in Beijing claimed that their only responsibility is to introduce clients, while the home-office of CMC in UK declared that they did not ask the clients to deposit their money to the IBs, and they hold no responsibility to their IBs' conducts.

Hardly three months later, a similar case happened again with another IB of CMC. CMC had private contract (without the client's consent) with IB on spreads offered. Besides the normal 3 pips spread, 12 pips in each of the client's trade is deducted to be the IB's commission, plus another 1 pip for CMC itself.

It is a fact that CMC allow its IBs to keep the clients' money without proper central control at the home office which led to such incidents to happen. These cases seriously damaged the company's market image and resulted in mistrust among existing and potential clients with CMC.

TOP PLATFORMS USED

Relate to market share which information is not yet possible to be obtained.

Most popular platforms, word of mouth

Cross-brokers: MT4, (GTS--reliability, VT--charting)

Broker-specific: in-house developed platforms—no unified comments

User-friendly, functions not too complicated, easily understood and manageable.

GTS—GLOBAL TRADING SYSTEM

Using the modern capacity and order processing requirements, the GTS has advanced connectivity solutions, developed based on the FIX protocol, the current standard for electronic communications, executing 250 transactions per second. The spread is normally fixed and there is no commission charged.

GTS of FXSOL

Features	 GTS Pro	 GTS Web	 GTS Mobile
Charting	✓	✓	
Computer Compatibility	Microsoft Windows	Microsoft Windows Macintosh, Linux	Over 1,200 devices including: palm, pocket pc, Blackberry, and Smartphones
Customized Layout & Colors	✓		
Economic Calendar	✓		✓
Entry Limits	✓	✓	✓
Entry Stops	✓	✓	✓
Flexible Leverage	✓	✓	✓
Floating Rates	✓		
GTS Ticker	✓		
Hedging	✓	✓	✓
Historical Charts	✓	✓	
Instrument Calculator	✓	✓	✓
Manage Account Rules	✓	✓	
Market Orders	✓	✓	✓
News	✓	✓	✓
No Download Required		✓	
One-Click Trading	✓		
Optimized for Mobile			✓
Reports	✓	✓	
Reverse	✓	✓	✓
Stops & Limits	✓	✓	✓
Super Rates	✓		
Tick Chart	✓	✓	
Trade History	Per Login Session	✓	Last 20 Trades

Developed in-house by FXSOL.

CREDIT CARD USAGE RATE/ FOR ACCOUNT OPENING PURPOSE

The credit card penetration rate in China is currently in between 37% to 40%. Major cities such as Beijing, Shanghai, Shenzhen...etc, possess the highest rate of about 45%.

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GLOSSARY

F

Forex: The foreign exchange market (currency, forex, or FX) trades currencies. It lets banks and other institutions easily buy and sell currencies. The purpose of the foreign exchange market is to help international trade and investment. A foreign exchange market helps businesses convert one currency to another.

Forex Margin Trading: The Foreign Exchange margin trading meaning the traders borrow loan from bank, finance organization or broker house to carry on the foreign currency trading. Generally, the financing proportion is above 20 times, which means the Forex trader's fund may enlarge to 20 times to carry on the trading. The bigger the financing proportion means the Forex traders just need to pay very less fund.

I

Introducing Brokers (IB): A person or organization which is able to perform all the functions of a broker except for the ability to accept money, securities, or property from a customer.

P

PEST: stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. The model has recently been further extended to STEEPLE and STEEPLED, adding education and demographics factors. It is a part of the

external analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macro-environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

S

SWOT: is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

W

White Label Partners (WL): A product or service, especially common in the in the financial sector, where the provider of the service purchases a fully supported product from another source (partner), then applies its own brand and identity to it, and sells it as its own product.