Proposal

1. **Executive Summary**

The purpose of this proposal is to raise initial capital for the development of a futures trading firm while showcasing the expected financials and operations over the next three years. The Futures Trading Inc. (“the Company”) is a Shanghai, China based corporation that will actively trade commodity and equity index futures listed on the exchanges in China including China Financial Futures Exchange (CFFEX), Shanghai Futures Exchange (SHFE), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE).

**1.1 Products and Services**

The primary revenue center for the business will come from the direct trading of commodity and equity index futures including corn, soybean, soybean meal, soybean oil, wheat, cotton, sugar, CSI 300 Index, gold, silver, and some others on a daily basis. The Company will be able to amplify its returns through the use of significant leverage for the products bought and sold using the firm’s capital. The business expects that it will use 1:5 leverage on all trades executed by the Company. The Company’s secondary stream of income will be derived from interest generated on capital in the broker account that are used in conjunction with the Company’s trading operations. Interest income will generate approximately 10% of the Futures Trading Firm’s aggregate revenue. The third section of the business plan will further describe the investment management services offered by the Futures Trading Firm.

**1.2 The Financing**

At this time, the Company is seeking to raise at least ¥20,000,000 for the development of the Futures Trading Firm’s operations. We are seeking to sell an 80% ownership interest in the business in exchange for this capital. During the operation of first year, the invested capital will be used for direct investments into the firm’s futures trading operations if necessary.

**1.3 Mission Statement**

Management’s mission is to develop the Futures Trading Firm into a world-class investment company that specializes in providing liquidity to the Chinese futures market with the intent to realize small, but continuous profits on a daily basis.

**1.4 Management Team**

Fei Ye and Mingyuan Zhang will found the Company. Dr. Ye and Dr. Zhang both have extensive experience in the futures and options trading industry. Through their expertise, they expect to bring the operations of the business to profitability within its first year of operations.

**1.5 Performance Forecasts**

We expect a strong rate of growth at the start of operations. Below are the expected financials over the next three years, with the assumption of 3% annual interest rate and 30% capital gain tax. The compensations of employees and board of members are not included. We assume the Company would acquire another exchange membership in the 3rd year and two more exchange seats.

|  |  |  |  |
| --- | --- | --- | --- |
| Performance Profit and Loss (Yearly) | | | |
| Year | 1 | 2 | 3 |
| Trading Profits | ¥2,250,000 | ¥4,500,000 | ¥9,000,000 |
| Operating Costs | ¥1,070,000 | ¥470,000 | ¥1,010,000 |
| Interest | ¥567,900 | ¥627,717 | ¥714,979 |
| Taxes | ¥354,000 | ¥1,209,000 | ¥2,397,000 |
| Net Profit | ¥1,393,900 | ¥3,448,717 | ¥6,307,979 |

**1.6 Expansion Plan**

The Company will undergo an aggressive expansion after the successful completion of the initial capital raising and infrastructure-building period. As the laws that govern investment pools for futures trading are different than those for general securities dealers/traders, the business may be able to solicit capital from the general public in a similar capacity to that of a registered investment advisory. The management team is currently investigating how the business can be expanded once trading operations commence. Besides proprietary trading business, the Company could also use proprietary trading algorithms to execute trades for clients for profit purpose by improving the price and liquidity and reducing the latency at the same time. The expansion would be multi-dimensional. One of the many dimensions could be to provide liquidity in many more futures contracts, and options when the corresponding government agency launches such derivatives. Another dimension the Management considers would be to expand the Company to overseas such as the United States of America.

**2.0 Company and Financing Summary**

**2.1 Registered Name and Corporate Structure**

Futures Trading Firm, Inc. The company is registered as a corporation in the city of Shanghai, China. The official name of the firm may be subject to change.

**2.2 Required Funds**

At this time, the Futures Trading Firm requires ¥20,000,000 of cash. Below is a break down estimation of how these funds will be used for the first year:

|  |  |
| --- | --- |
| Company Registration and Setup | ¥100,000 |
| Acquire Exchange Memberships | ¥500,000 |
| Exchange Seat Annual Fee | ¥40,000 |
| Colocation Cost | ¥80,000 |
| Computer Cost | ¥200,000 |
| Management Travel and Lodge Cost | ¥50,000 |
| Miscellaneous and Unforeseen Costs | ¥100,000 |
| Total Startup Costs | ¥1,070,000 |

**2.3 Investor Equity**

At this time, we are seeking to sell an 80% interest in Futures Trading Firm in exchange for the capital sought in this business plan. Please reference the Company’s private placement memorandum regarding more information regarding the Company’s fee and ownership structure.

**2.4 Management Equity**

Fei Ye and Mingyuan Zhang currently owns 100% of the Futures Trading Firm, Inc.

**2.5 Exit Strategy**

Management has planned for two possible exit strategies that would yield significant capital appreciation for the Company’s Management Team and Investors. First, the business could be sold in its entirety to a thirty party entity. At this point, Management would most likely leave the Company to pursue other ventures. The second exit strategy would be to engage a secondary capital raising that would allow Management and Investors to cash out a portion of the equity built into the business while concurrently providing the firm with more capital for trading. This exit strategy would still require that Management operate the firm on a day-to-day basis, so in actuality it is only a partial exit strategy. However, by raising a secondary round of capital, the business could easily expand to become a much larger trading organization after the third year of operations.

**3.0 Products and Services**

As stated in the executive summary, the business intends to actively trade futures and options related to commodities including agricultural commodities, energy, precious metals, and equity indices. The Company, prior to the onset of operations, will develop brokerage relationships with major commodities brokers that will place and manage trades on behalf of the Company. The business will specially select brokers that can offer the futures trading firm prime brokerage capabilities, which include expanded leverage for the Company’s investments. As discussed earlier, the Company intends to use conservative 1:5 leverage for most of its trades. However, most exchanges permit the use of 1:8 leverage for certain commodity futures. Management will only use larger amounts of leverage when the underlying commodities have been properly hedged using counteracting contracts. One of the primary strategies that the Futures Trading Firm intends to engage will be market making trading, which will allow the business to actively buy and sell futures to provide liquidity while keeping delta neutral of the futures and options portfolios. Once the Board Members and the Management feel comfortable about the profitability and corresponding cost, the Company will apply to acquire the exchange memberships to further bring down the trading cost.

**4.0 Strategic and Market Analysis**

**4.1 Economic Outlook**

This section of the analysis will detail the economic climate, the futures trading industry, the customer profile, and the competition that the business will face as it progresses through its business operations. Currently, the economic market condition in China is booming. This condition in the economy has also greatly impacted real estate sales, which has halted to historical highs. Many economists expects that this booming will continue until 2015, at which point the economy will begin a prolonged stable period. Many market practitioners and economists believe it will be to the best interest of the Chinese government (CSRC) to develop further the financial derivative market, to better serve transferring of risks between main street and wall street.

**4.2 Industry Analysis**

The financial services sector has become one of the fastest growing business segments in the Chinese economy. Computerized technologies allow financial firms to operate advisory and brokerage services anywhere in the country. In previous decades in U.S., most financial firms needed to be within a close proximity to Wall Street in order to provide their clients the highest level of service. This is no longer the case as a firm can access almost every facet of the financial markets through Internet connections and specialized trading and investment management software. With these advances, several new firms have been created to address the needs of people in rural and suburban areas. Within China, there are approximately 2000 companies that independently trade futures and commodities contracts with the intent to generate a profit. Several commodities exchanges of China have the largest volume of agriculture products, normalized by currency and notional value. The Chinese government has done a tremendous job to hedge and transfer the risks between main street and wall street. After the successful launching of CSI 300 index future, CFFEX not only keeps up with CME on E-Mini S&P future, but also serves as a great financial vehicle for investors. In the near foreseeable future, treasury bond futures and crude oil futures will not only provide investment opportunities for retailers, but also allow the Chinese government to have the pricing power in oil products.

**4.3 Customer Profile**

As the Company intends to operate its trading operations via the free trading markets within China, the Company will not directly have “customers.” In a sense, the customers of this firm are its investors as the Company is trying to develop a wealth and income creating vehicle for them and the Senior Management Team. However, and in the future, the Company may expand its capital base by soliciting additional investments from the general public. In this instance, the Company would need to register itself as a broker firm with China Securities Regulatory Commission (CSRC). At this time, it is unclear as to what requirements would be needed in order for an individual to invest with the futures trading firm as they differ substantially from other private investment vehicles such as hedge funds and private equity groups.

**4.4 Competitive Analysis**

Competition is fierce in the futures trading industry, not only because the industry is mostly efficient and reward promising, but also there are so many smart and diligent people working hard. The Management has extensive experience in developing automated algorithms to provide liquidity while making profits. It is our belief that we will come out strong and grow organically by hiring the most capable talents in the market.

**5.0 Corporate Organization**

Board Member, Senior Management, Quantitative Trader, Software Engineer, Operations Staff, Accountant, Administrative

**6.0 Financial Plan**

**6.1 Underlying Assumption**

The Futures Trading Firm will have an estimated first-year annual revenue growth rate of 10% per year after successfully acquiring the exchange memberships and building the trading infrastructure. The Management Team will acquire ¥20,000,000 of cash to develop the business.

**6.2 Sensitivity Analysis**

The Company’s revenues are not sensitive to changes in the general economy. The Futures Trading Firm will use a number of trading strategies to ensure that the business can generate profits despite increases or decreases in the value or volatility of any commodity. As such, the business should have no issues with top line income despite inflationary pressures or downward pricing pressure on specific commodities.