

## **RISK FACTORS**

*Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.*

### **RISKS ASSOCIATED WITH THE GROUP**

#### **Reliance on the October Shows**

The Group organised the first Hong Kong International Toys & Gifts Show in October 1992 and has subsequently organised it in October annually. The first Asian Gifts Premium & Household Products Show was held concurrently with the Hong Kong International Toys & Gifts Show in October 1993. For the three years ended 31st March, 2001 and the seven months ended 31st October, 2001, the October Shows accounted for approximately 97%, 100%, 91% and 100% respectively of the Group's turnover. Since the Group's principal source of revenue and cash inflow has historically been, and will for the foreseeable future continue to be derived from the October Shows, the Group's continued ability to act as the organiser of the October Shows and the success of the October Shows is essential to the Group's working capital, profitability and business operations in the foreseeable future. The Group's cashflows are irregular, with the October Shows providing major cash inflows for the Group in November and April each year. However, the Group may suffer from insufficient cash inflows at other times. The Group is not stipulated to be the organiser for future October shows. Should the Group fail to convene the October Shows in accordance with its scheduled period and venue or be forced to cancel the October Shows for reasons entirely beyond the control of the Company or fail to convene the shows for whatever reasons in the foreseeable future, the operations and business of the Group may be adversely and materially affected.

There are business insurance plans that cover the risks in connection with the cancellation of scheduled exhibitions. These insurance plans typically cover the cancellation due to specific conditions but do not cover loss due to financial causes, war or terrorism. The Group does not join such business insurance plans since there is a clause in its contracts with the exhibitors, under which the Group must receive non-refundable full payment from exhibitors prior to the opening of the shows. This has minimised the risk and potential loss associated with cancellation of the exhibitions. Generally, an insurance company would not offer business insurance plans that cover the risks in connection with the failure of the Company to convene exhibitions in the foreseeable future without any specific reason.

#### **Seasonality of the business**

Due to the seasonality of the Group's businesses where the October Shows were held in October each year, the quarterly financial results vary as the Group will record an operating loss in the first two quarters whereas the Group's major profits will fall in the third and fourth quarters of a financial year.

#### **Reliance on major venue provider and suppliers of exhibition-related facilities and services**

For each of the three years ended 31st March, 2001 and the seven months ended 31st October, 2001, the largest supplier of the Group was HKCEC, a provider of exhibition venues which is an independent third party not connected with the Group. The fees payable to HKCEC

## **RISK FACTORS**

accounted for approximately 31%, 27%, 23% and 31% for each of the three years ended 31st March, 2001 and for the seven months ended 31st October, 2001 of the Group's cost of exhibition respectively, which comprised rental for venues, commissions, advertising and promotion costs, exhibition facilities and subcontracting fees. For the same period, fees paid to the five largest suppliers of exhibition-related facilities and services accounted for approximately 64%, 53%, 44% and 57% of the Group's cost of exhibition for each of the three years ended 31st March, 2001 and for the seven months ended 31st October, 2001 respectively. Other than the arrangement with the HKCEC to hold dates and space for the Group's October Shows from 2002 to 2007, which is provisional and subject to contract, the Group has not entered into any long term agreements with the HKCEC or other suppliers of exhibition-related facilities and services. There is nothing to prevent competitors from booking the Group's preferred venues and dates considered by the Group to be most attractive for its own shows, despite the provisional arrangement with the HKCEC. Should the Group fail to maintain its business relationship with any of these major suppliers and be unable to secure alternative suppliers who offer comparable venues or terms of supply, the operations and the business of the Group may be adversely affected.

### **Substainability of profit**

Although the Group achieved a significant growth in profit after tax from approximately HK\$8.5 million for the year ended 31st March, 1999 to approximately HK\$39.5 million for the year ended 31st March, 2001, there can be no assurance that such a high rate of growth will continue in the future. The Group's profits historically have been mainly derived from the October Shows, the participation fees of which were the major source of income. However, due to the physical restrictions on the area of the exhibitions' venue, the growth of the Group's future profits, which is solely dependent on the contribution by the October Shows is therefore limited. In addition, the Group may expand its business to include fabrication and construction of booths in the future, which may not be as profitable as the existing business. The Group's overall net profit margin might be adversely affected by the expansion.

### **Reliance on databases of exhibitors and buyers in the toys and premium gifts industries**

The participation rate at the Group's exhibitions is highly dependent on the Group's successful exploitation and maintenance of its databases, particularly the databases developed in the toys and premium gifts industries. The Group's ability to draw from such a large database of exhibitors and buyers enables the Group to market its services broadly. Failure in proper maintenance of the databases may adversely affect the Group's business.

### **Reliance on key personnel**

The Group's success is, to a large extent, attributable to the continued commitment of its Directors and the Group's other key personnel, and their well-established relationships with the exhibitors and venue and service providers as well as the Group's business associates and industrial associations.

Each of the executive Directors has signed a service agreement with the Company for an initial term of 3 years commencing from 1st April, 2002. However, there can be no assurance that the Group will be able to retain the services of its executive Directors or the services of its other key personnel. The loss of service of any of the Group's executive Directors or other key personnel could have a material adverse effect on the Group's management and operations.

## **RISK FACTORS**

### **Reliance on a major customer**

For each of the three years ended 31st March, 2001 and the seven months ended 31st October, 2001, Golden Seal International Trade Fair Service Agency Corporation, the largest customer of the Group, accounted for approximately 4.9%, 24.1%, 16.7% and 22.5% respectively of the Group's turnover. The Group has not entered into any long-term contract with such customer. As such, there is no assurance that such customer will continue to participate in the Group's exhibitions and if it does not do so, operations and business of the Group may be adversely affected.

### **Risk of geographical expansion**

The Group has appointed independent third parties to provide services, including liaison with local government bodies, compilation of feasibility study report and database of potential exhibitors and buyer, relating to the exploration of business opportunities and organisation of trade fairs and trade shows overseas such as Thailand and the PRC. However, there can be no guarantee that these services, the cost of which amounts to HK\$12,000,000 and has been fully paid in advance as at 31st October, 2001, will lead to any expansion of the Group's business or that such expansion will be profitable for the Group. The first Asia Expo held in UK during 2001 recorded a loss of approximately HK\$5 million, which was mainly due to the write off of an one-off exhibition development cost amounting to HK\$6 million during the year ended 31st March, 2001.

### **Dividends**

The combined profit after tax of the Group for each of the three years ended 31st March, 2001 and the seven months ended 31st October, 2001 amounted to approximately HK\$8,533,000, HK\$32,320,000, HK\$39,546,000 and HK\$55,350,000 respectively. A subsidiary of the Company, Kenfair International, declared and paid dividends of approximately HK\$8,600,000, HK\$25,000,000 and HK\$51,000,000 respectively for each of the three years ended 31st March, 2001 to its then shareholders. An interim dividend of HK\$34,500,000 was declared by the same subsidiary of the Company for the seven months ended 31st October, 2001 and was paid to its shareholders who appeared on its register of members on 31st October, 2001. Such dividends were paid out of the Group's internal resources and no loan arrangement was made or will be made to finance any such payment. The Directors believe that the dividends paid during the track record period did not adversely affect the Group's working capital. Potential investors should note that such historical dividend payments should not be used as a reference or basis for the determination of the future dividend policy of the Group. There is no assurance that payment of dividends will be repeated in the future.

## **RISKS ASSOCIATED WITH THE INDUSTRY**

### **Intensive preparatory works and advance cash payment required for organising exhibitions**

In preparation for an exhibition, the Group has to carry out intensive preparatory works in cooperation with the exhibitors, the exhibition venue and service providers and other participants in the exhibition industry, details of which are set out in the paragraph headed "Exhibition" in the section headed "Business" of this prospectus. More importantly, significant expenses have to be incurred by the Group for booking a suitable venue as exhibition venue providers typically require a non-refundable 10% cash deposit in advance for each booking. Since the Group usually signs contracts with exhibitors only after it has booked a venue, upon which the exhibitors are required to pay a 50% non-refundable deposit to the Group, the Group has to make advance cash payments before receiving any deposits from exhibitors.

## **RISK FACTORS**

In the event that a proposed exhibition fails to materialise as planned, that a suitable venue is not available at the times preferred by the Group, that the Group fails to complete its preparatory works on time or that the Group does not have sufficient cash to book an exhibition venue, the Group's business may be adversely affected.

### **Competition**

The Group faces keen competition from existing international and local exhibition organisers which have developed and provided exhibition services similar to those offered by the Group. The Group faces competition from existing exhibition organisers in terms of the price of exhibition booths, size and participation rates of exhibitions. To expand its business in Asia, the Group will also have to compete with local exhibition organisers in the countries where it seeks to expand. The Group may face competition from other exhibition organisers if it seeks to establish new exhibitions relating to industries which it is not familiar with but in which competitors have experience.

The profitability and future growth of the Group may be adversely affected if competition in the exhibition industry increases or if the Group fails to consolidate its position in the industry.

### **Low entry barrier**

The level of competition in the exhibition industry in Hong Kong is high and may become increasingly intense in the future. The growth potential of the exhibition industry as well as low barriers to entry in the business, may attract exhibition organisers from other countries.

Although there exist entry barriers in the exhibition industry, which include lack of established reputation and the extent of participation in the exhibitions, as referred to in the sub-section headed "Entry barriers" in the section headed "Business" of this prospectus, the Group has no exclusive right in the concept of the October Shows and other shows organised by the Group.

Such potential competition, which may affect the competitiveness of the Group, may adversely affect the profitability of the Group.

## **RISKS RELATING TO THE POLITICAL, ECONOMIC AND LEGAL REGIMES**

### **Political and economic stability in the PRC**

Since 1979, the PRC has adopted an "open-door" policy and the country is gradually shifting itself towards a more market-oriented economy, having recently been accepted into the WTO. Such reforms have resulted in significant economic growth. The reforms over the past 23 years have significantly improved the country's investment and business environment as compared with the past, but reforms are subject to further modifications and adjustments.

The Directors believe that, in the long run, such modifications and adjustments could improve the overall investment and business environment in the PRC which would be advantageous to the Group. However, there is no guarantee that such changes would benefit the Group immediately and it is difficult to determine whether they may have negative impacts on the Group's business and operations in the future.

## **RISK FACTORS**

### **Legal and regulatory framework in the PRC**

The National People's Congress, or its Standing Committee, is responsible for the passing of laws of the PRC and any amendments thereto. The PRC legal system is based on written statutes. Court judgments are therefore not legally binding, although judges in subsequent cases may make reference to them in forming their judgements. The interpretation of the PRC laws may be subject to policy changes reflecting the domestic, political and social developments at the time.

Since 1979, to facilitate foreign investments and to meet the demand of investors, the PRC government has been developing and modifying its economic and legal systems by promulgating a series of economic-related laws and regulations. As the legal system of the PRC keeps evolving, the promulgation of new legislation, the changes made to the existing laws and regulations and the precedence of national laws over local regulations may have negative impacts on foreign investors. There is no assurance that the future changes in, and modifications of, the laws and regulations in the PRC will be advantageous to foreign investors. Uncertainty therefore exists as to the effect of any changes in, and development of, any laws and regulations in the PRC. There is also no guarantee that any change in the interpretation of PRC laws and regulations in the future will not have any adverse effect on the business operations and the prospects of the Group.

### **Restrictions on the industrial sector in the PRC**

The Group plans to extend its existing business and develop new business in the PRC. In June 2000, the Group set up a representative office in Shanghai, the PRC. However, the future development and prospects of the exhibition industry in the PRC is subject to restrictions on foreign ownership of exhibition organisers, technological changes and the general economic, political and social conditions in the PRC. Should these factors adversely affect the exhibition industry, the Group's ability to organise trade shows and its future development in the PRC will be hindered.

### **Political and economic risks in Hong Kong**

The Group's operations are based mainly in Hong Kong which is a special administrative region of the PRC with its own government and legislature. The Joint Declaration between the central government of the PRC and the British Government and the Basic Law provide that Hong Kong will have a high degree of legislative, judicial and economic autonomy. Since the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, Hong Kong has enjoyed a high degree of autonomy. However, there is no assurance that the present political and economic environment in Hong Kong will remain unchanged. Future development in the political and economic environment in Hong Kong may have adverse effects on the business and financial conditions of the Group.

### **Possible impact of the terrorist attacks in New York and Washington, the US on 11th September, 2001**

Following the terrorist attacks in New York and Washington, the US on 11th September, 2001 (the "Terrorist Attacks"), the US economy suffered material damage and the global economy is also affected by the political and economic conditions in the US.

## **RISK FACTORS**

As set out in the sub-section headed “Grounds for termination” in the section headed “Underwriting” of this prospectus, the Underwriters may terminate their obligations to subscribe or purchase or procure subscribers or purchasers for the Offer Shares under the Share Offer and Underwriting and Placing Agreement by notice in writing to the Company upon the occurrence of any of the events set forth therein at any time prior to 5:00 p.m. on the third Business Day after the close of the application lists for the Public Offer. Such events include, but without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out in Hong Kong or the PRC. There is no assurance that the Underwriters will not terminate their obligations under the Underwriting and Placing Agreement due to the Terrorist Attacks.

Even if the Underwriters do not terminate their obligations under the Underwriting and Placing Agreement and the Share Offer proceeds as planned, there is no assurance that the Group’s future business operations and profitability would not be adversely affected by the Terrorist Attacks.

There was a reduction in the number of visitors attending the October Shows in 2001 compared to 2000. The Directors attribute the reduction in the number of visitors to the impact of the Terrorist Attacks, which took place about one month prior to the October Shows in 2001. There is no assurance that the number of exhibitors and visitors attending the exhibitions to be organised by the Group will not be significantly reduced as a result of the Terrorist Attacks or similar events.

### **Statistics from unofficial publications**

Certain statistics in this prospectus are derived from various public and private publications. Such information has not been independently verified and may not be accurate, complete and/or up-to-date. Accordingly, such information should not be unduly relied upon.