
RISK FACTORS

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

RISKS RELATING TO THE COMPANY

Risks associated with the Company's investments

The Company is an investment company and its funds will be invested in listed and unlisted securities principally in Hong Kong and in the PRC. These investments will be subject to market fluctuations and the risks inherent in all investments. Investors should also be aware that the Company's income and its Net Asset Value may be adversely affected by external factors beyond the control of the Company. As a result, the Company's operating results and its Net Asset Value may go down as well as up, subject to, among other factors, the prevailing market conditions.

Illiquidity of investments in the PRC

The Company intends to make direct investments in companies or enterprises established in the PRC, and such investments will be of a medium term nature. The Company expects to realize capital gains, if any, by disposing of its interest in such companies or enterprises upon or after the listings of their securities, or the sale of its interests therein to its joint venture partners or to third parties subject to the approval of the relevant parties and government authorities. However, there is no assurance that such capital gains can be realized or that the requisite approvals can be obtained. The Company's investments in the PRC may therefore be illiquid.

No prior market for the Shares

Unlike companies with core businesses, products or services, the Company may invest in companies engaging in a wide range of businesses. As a result, comparable securities may not be available for reference as to the fair market value of the Shares. Further, prior to the proposed flotation, there has been no public market for the Shares. There is no assurance that an active trading market for the Shares will develop, or if it does develop will be sustained, upon the listing of the Shares on the Stock Exchange.

Negotiated issue price

The New Issue Price has been determined by negotiation between the Company and the Underwriter. In underwriting the New Issue, the Underwriter has taken into consideration the conditions of the stock market and the expected liquidity of the capital market during the short period of time as well as the long term fair market price of the Shares. Therefore, the New Issue Price may not be indicative of the future market price of the Shares after the listing of the Shares on the Stock Exchange.

No profit track record

The Company has no profit track record. The profit or value of the Company is reliant on the expertise of the Directors and the directors of the Investment Manager and the performance of the investee companies. As at the Latest Practicable Date, the Company had not identified any investment opportunity.

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Risks associated with the fees payable to the Investment Manager and the Custodian

The Company will have to pay certain fees to the Investment Manager and the Custodian. As the investments made by the Company are subject to market fluctuations and to the risks inherent in all investments, there is no assurance that the Company will be able to generate sufficient income from its investments to cover all these fees and expenses incurred by the Company.

Potential conflicts of interest of the Investment Manager

At present, the Investment Manager is also the investment manager of UBA, another investment company listed on the Stock Exchange. The Company and UBA have different investment objectives and policies and have their own independent boards of directors, different investment portfolios and different size of investment funds, their respective investment policies and objectives in terms of risk/reward profile would be different. **In order to resolve the potential conflict of interest in allocating investment opportunities between the Company and UBA, the Investment Manager has undertaken with the Company that all investment opportunities, in particular, private investments identified by the Investment Manager must be presented to the boards of directors of both the Company and UBA. If both companies intend to participate in the same investment, such investment opportunities would be allocated to the Company and UBA on an equitable basis.**

It is possible that the Investment Manager or other investment advisers as may be appointed by the Company from time to time, may, in the course of their business, have potential conflicts of interest with the Company. For instance, the Investment Manager, its associated companies or directors of the Investment Manager or other investment advisers may act as underwriter for securities sold to the Company or provide investment management and/or advisory services to other clients (including other funds). The Investment Manager's associated companies or its directors will be free to render services similar to those which it is providing to the Company and/or to other clients (including other funds) so long as the Investment Manager's services to the Company are not thereby impaired and the Company's interests are not thereby directly prejudiced. Further, the Investment Manager or its associated companies or any director or chief executive of the Investment Manager or such associated companies may receive commission, brokerage and other charges in relation to the sale or purchase of any investment by the Company.

Potential investors should refer to the paragraph headed "Potential conflict of interest" under the section headed "Investment Management" for further information in relation to potential conflicts of interest of the Investment Manager.

Lack of statutory control over investee companies

As an investment company listed under Chapter 21 of the Listing Rules, the Company is precluded from investing in more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body. All investments to be made by the Company will therefore be passive in nature and the Company will not be able to exert any statutory control over the relevant investee companies.

Investee companies may need to raise additional funds in the future to finance their respective businesses and operations. If additional funds are raised through the issue of new equity or equity-linked

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securities, other than on a pro rata basis to their existing shareholders, the Company's interests in the investee companies may be diluted accordingly.

No comparable market values of the shares of the investee companies

As part of its investment objective and investment policies, the Company may invest in companies, which may be listed or unlisted. Depending on the nature of businesses of the investee companies, comparable market values of the shares of the investee companies may or may not be available. In the event that the market values of the shares of such companies are not available, the Directors or the Investment Manager (as the case may be) will make reference to, if available, the latest financial information of such companies and the industrial statistics of the relevant businesses. To a large extent, the Company has to rely on the judgment and experience of its Directors or the Investment Manager (as the case may be) in assessing the values of the investee companies to determine the basis of consideration for such acquisitions and there can be no assurance that the assessment of the Directors or the Investment Manager will prove accurate.

RISKS RELATING TO HONG KONG

Political factors

On 1st July, 1997, the sovereignty of Hong Kong was officially handed over by the United Kingdom to the PRC. Since then, Hong Kong has been operating as a special administrative region within the PRC. Although the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law of Hong Kong provide that Hong Kong has a high degree of autonomy, except in matters relating to defence and foreign affairs, with its own legislature, legal and judicial systems, and full economic autonomy for a period of 50 years from 1st July, 1997. There is no assurance that the general economy of Hong Kong, and hence the Group's financial position and its results of operations, will not be adversely affected as a result of the exercise of sovereignty by the PRC over Hong Kong.

Economic factors

Various economic statistics released recently such as GDP contraction of 1.6% in the fourth quarter of 2001, rising of the provisional unemployment rate to 6.7% at the end of January 2002 and a deflation rate of 2.1% in the fourth quarter, all suggest that the economy is deteriorating. The government official forecast for GDP growth for year 2002 is 1%. The Corporate Consumer Price Index is forecasted to decline 2.8% in 2002 following a 1.6% decrease in 2001. The Chief Executive announced several measures to curb the effects of Hong Kong's weak economy. However, the effect of such measures is uncertain.

The tragic incidents of terrorist attacks in the USA have led to a great deal of uncertainty and are likely to have medium term implications for the global economy, which may cause highly volatile stock markets both in the USA and globally. The act of terrorism in general, the war on Afghanistan and the anthrax incidents may have an adverse effect on the economic conditions of Hong Kong.

According to statistics issued by the Hong Kong government, office rentals and shop rents went down by 7% and 4% respectively in 2001. In the residential property market, the substantially reduced mortgage interest rate and considerably improved affordability did not render much stimulus to the market, as potential home buyer were restrained by concern over job security and income instability.

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Government's statistics showed that residential prices fell on average by 13% in 2001 while rentals declined an average of 7%.

On visible trade, total exports (comprising re-exports and domestic exports) decreased by 8.8% in real terms in the fourth quarter of 2001 over a year earlier. Imports of goods declined by 9.1% in real terms in the fourth quarter. For 2001 as a whole, total exports and imports of goods decreased by 3.0% and 2.4% in real terms respectively over that of 2000.

On invisible trade, exports of services recorded a marginal increase of 0.5% in real terms in the fourth quarter of 2001 over a year earlier. Imports of services decreased by 2.3% in real terms in the fourth quarter of 2001. For 2001 as a whole, exports of services recorded an increase of 3.5% and imports of services rose marginally by 0.1% in real terms over that of 2000.

Devaluation of the Hong Kong dollar

The Hong Kong dollar has been pegged to the United States dollar at the rate of approximately HK\$7.80 to US\$1.00. The Government of Hong Kong has repeatedly reaffirmed its commitment to this pegged exchange rate system. However, in the event that this policy were to be changed, there would be a risk that the Hong Kong dollar would be devalued, which would increase the Hong Kong dollar cost of the Company's foreign currency capital expenditures.

Risk relating to wars and terrorism

It is possible that the terrorist attacks in the USA in September 2001 may have political and/or economic adverse impact on Hong Kong and the PRC. There can be no assurance that there will not be any further terrorist attacks which could have direct or indirect effect on Hong Kong and the PRC and the corresponding political and/or economic effects arising therefrom, if any, may in turn adversely affect the operation and profitability of the Company.

RISKS RELATING TO THE PRC

Investing in the PRC carries a high degree of risk. Apart from the usual investment risk, investing in the PRC is also subject to certain other inherent risks and uncertainties.

Political and economic considerations

Since 1978, the PRC government has adopted various policies which have led to significant economic growth and social progress in the PRC. Many of these policies are unprecedented or experimental and are expected to be refined and adjusted from time to time. Other political, economic and social considerations may also lead to further changes to such policies. Although the Board believes that the refinement or adjustment of such policies will be beneficial to the investments of the Company in the PRC, there is no assurance that such refinement or adjustment process will always have a positive impact on the Company's investments. The Company's investments in the PRC may also be adversely affected by changes in the political, economic and social conditions in the PRC and also by changes in the policies of the PRC government such as changes in the laws and regulations (or the interpretation thereof), the introduction of measures to control inflation, the imposition of taxes, levies and fees, and the imposition of restrictions on currency conversion and remittances abroad.

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Historically, the economy of the PRC was centrally planned and the PRC government is responsible for formulating annual and five-year plans for the whole country which set forth economic targets. Following the confirmation of the “Open Door Policy” and the implementation of a “socialist market economy”, the PRC government has encouraged substantial private economic activity and has lessened its control over the allocation of resources and the productivity of the PRC economy. However, there can be no assurance that the PRC government will either continue to pursue its current policies or that such policies will not be significantly altered.

Government control of currency conversion and exchange rate risks

The PRC government imposes control over the conversion of Renminbi into foreign currencies. Under the current unified floating exchange rate system, PBOC publishes the PBOC Exchange Rate based on the previous day’s dealing in Renminbi in the inter-bank foreign exchange market. Financial institutions authorised to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorised range above or below the PBOC Exchange Rate according to market conditions.

Pursuant to the Rules of the PRC on Foreign Exchange Control, which came into effect on 1st April, 1996 and the Administrative Regulations on Foreign Exchange Settlement, Sale and Payment, which came into effect on 1st July, 1996, regarding foreign exchange control, conversion of Renminbi into foreign exchange by FIEs for the use of recurring items, including the distribution of dividends and profits to foreign investors of joint ventures, is permissible. FIEs are permitted to remit foreign exchange from their foreign exchange bank accounts in the PRC in accordance with, amongst others, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of dividends and/or profits. Conversion of Renminbi into foreign currencies for capital items, including direct investment, loans, security investment is still under control. On 14th January, 1997, the State Council amended the Rules of the PRC on Foreign Exchange Control and added, among other things, Article 5 which provides that the PRC government shall not impose restrictions on recurring international payments and transfers.

Pursuant to the Administrative Regulations on Domestic Foreign Exchange Accounts, which came into effect on 15th October, 1997 for the purpose of strengthening the supervision and control of foreign exchange accounts, FIEs are required to apply to the relevant local bureau of SAFE for permission to open a foreign exchange account and for a foreign exchange registration certificate.

Upon the satisfaction of certain specified conditions, the FIEs will be issued with a notice of opening a foreign exchange account and a foreign exchange registration certificate by the relevant local bureau of SAFE, and thereupon the FIEs shall carry out the account-opening procedures with an account-providing financial institution in the PRC. FIEs may then enter into foreign exchange transactions at banks authorised to conduct foreign exchange business to obtain foreign exchange for their needs. FIEs are also required to open a “current account” and a “capital account” with a bank authorised to conduct foreign exchange business. SAFE has the authority to determine the maximum amount of foreign exchange a FIE may maintain in its current account in accordance with the paid-up capital of the FIE and its need for foreign exchange working funds on a day-to-day basis. Any foreign currency income in the current account exceeding such maximum limit shall be sold to a bank authorised to conduct foreign exchange business.

The Company may invest in FIEs to which the above-mentioned rules and regulations are applicable. There is no assurance that such rules and regulations will not change in the future.

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The value of Renminbi is subject to changes in the policies of the PRC government and to international economic and political developments. Since 1995, the value of Renminbi against both the US dollar and Hong Kong dollar has been relatively stable. However, the PRC government may devalue the Renminbi to maintain its competitiveness as compared to those Asian nations whose currencies have devalued substantially as a result of the recent financial turmoil. Devaluation of Renminbi would adversely affect the value, when converted from Renminbi into Hong Kong dollars, of any dividends, or distribution of profits or capital gains that may be received or derived by the Company from its investments in the PRC.

Legal system

The PRC legal system is based on written statutes and therefore, legal cases decided by the courts are not binding precedents. In addition, the interpretation of the PRC laws may be subject to policy changes reflecting domestic political changes. Since 1979, numerous laws and regulations governing economic matters have been promulgated in the PRC.

Although considerable progress has been made in the promulgation of laws and regulations governing economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, which have significantly enhanced the legal protection afforded to foreign investors, these laws and regulations may be subject to changes and modifications as they are being developed and some degree of uncertainty may occur. There is no assurance that such changes in the PRC laws and regulations (or the interpretation thereof) may not have any adverse effect upon the investments of the Company in the PRC.

PRC securities markets

The Company may invest in the PRC securities markets. The PRC securities markets are undergoing a period of growth and change which may lead to price volatility, illiquidity, difficulties in the settlement and recording of transactions and in the interpretation and application of the relevant regulations. In addition, it is uncertain whether, how and to what extent the Company will be able to realize part or all of its investments on listing of its investee companies on the PRC securities markets.

Accounting, auditing and financial reporting standards

There are differences between the accounting, auditing and financial reporting standards in the PRC and Hong Kong. Notable differences are found in areas such as provision for inventory obsolescence, preparation of consolidated accounts, valuation of properties and other assets, accounting for depreciation, deferred taxation and contingencies and treatment of exchange differences. In general, there may be less publicly available information about the PRC companies than there is about Hong Kong companies. Less audited information will therefore be available to the Company in relation to investments in the PRC than if it were to invest in Hong Kong.

PRC's accession to World Trade Organisation

With the PRC's accession to World Trade Organisation, more multinational corporations will expand their business operations into the PRC and the domestic enterprises in the PRC in which the Company may invest in will probably face increased competition, which may have an adverse effect on the Company's investments.