RISKS RELATING TO THE GROUP

The Group is reliant on its major customers

During the Track Record Period, the Group had over [520], [580] and [560] customers respectively, including domestic distributors, overseas furniture wholesalers and retailers, and various licensees under the licensing arrangements. The five largest customers of the Group, being Independent Third Parties, are mainly overseas furniture retailers and importers and have approximately [1] to [15] years' business relationship with the Group. For each of the three years ended 31 December 2008, sales to these five largest customers of the Group, in aggregate, accounted for approximately [32.6]%, [32.3]% and [29.8]% respectively of the turnover of the Group. Over the same period, sales to the largest customer of the Group accounted for approximately [10.9]%, [11.2]% and [8.5]% of the Group's turnover respectively. There is no long-term sales contracts between the Group and its customers, including the five largest customers. There is no guarantee that such customers will continue to conduct business with the Group. In the event that the Group's customers, including the five largest customers, materially reduce their purchase orders with the Group or cease to conduct business with the Group, and the Group fails to obtain a comparable level of purchase orders from new customers, the Group's business, results of operations and financial condition may be adversely affected.

The licensing business is critical to the profitability of the Group

The Directors consider that the licensing arrangements with third party furniture manufacturers represent an important part of the Group's business, notwithstanding that the licensing fees only accounted for [7.4]%, [5.7]% and [3.5]% of the Group's turnover during the Track Record Period. Under such licensing arrangements, the Group derives licensing fees from granting non-exclusive rights to third party licensees for using the Group's brand names and product designs when marketing their products. The licensing fees are calculated based on a certain percentage of the invoiced value of the furniture products under licence at which the licensees sell to their customers. The unit prices for calculating the invoiced value of the furniture products are pre-determined by the Group and the licensees after arms' length negotiation and taking into account the costs incurred by the Group in product design and brand building as well as the potential production costs. For the three years ended 31 December 2008, the gross profit attributable to the licensing business accounted for approximately 39.1%, 29.0% and [18.8]% respectively of the Group's gross profit.

During the Track Record Period, the Group contracted with 9, 9 and 4 licensees respectively, which are all Independent Third Parties. The Group has maintained business relationships with its licensees for approximately [1] to [13] years. The licence agreements are normally for a term of two years. No licence agreement was terminated by the Group prior to its expiry during the Track Record Period. As at the Latest Practicable Date, the Group maintained licensing arrangements with [four] licensees in the PRC. There is no assurance that the licensees of the Group will renew their licence agreements with the Group upon expiry. If the existing licensees decide not to renew their licence agreements with the Group upon expiry or are unable to market their products under the Group's brand names and designs profitably, the financial performance of the Group may be adversely affected.

The Group's licensing income may be subject to the manipulation of its licensees if the licensees materially understate their sales amount with their customers

Under the licence agreement, the amount of licensing fees to be received by the Group depends on the sales of the licensed products by the licensees to their customers. The Group has linked up its ERP system with those of its licensees and periodically seconds its accounting personnel to the licensees' premises to observe their operation in order to monitor their sales amount. However, there is no assurance that the licensees would report to the Group their actual sales amounts. Should any of the licensees intentionally understate its sales amount and it is not detected by the Group, the Group's profitability may be adversely affected.

The quality of the sales services offered by the Group's distributors may be critical to the Group's brand building efforts

The Directors consider that the Group's continuous success depends to a large extent on its brand building capability, as a well established brand name is an important factor in influencing consumers' purchasing decision. In order to build and maintain the brand awareness of its products amongst the end consumers in the PRC, the Group employs various marketing and promotional strategies including product advertising in newspapers, trade publications, magazines, and on television as well as participating in trade fairs and exhibitions. The Group also provides training to the sales staff of the distributors that may focus on selling techniques and customer services. Details of the Group's sales and marketing activities are further discussed in the sub-paragraph headed "Sales and marketing activities" in the paragraph headed "Marketing and promotion" in the section headed "Business" in this document. However, should the distributors be unable to deliver the level of sales services satisfactory to the end consumers when marketing the Group's products, the image of the Group's branded products may be adversely affected.

The Group does not implement any measure to monitor the service quality of its overseas customers

For its exports business, the Group does not enter into any distribution framework agreement to govern the general responsibilities and obligations between the Group and its overseas customers. In addition, the Group does not implement any measure to monitor the service quality of its overseas customers. In the event that the overseas customers are unable to deliver satisfactory service quality to their customers, the image of the Group's branded products may be adversely affected.

The Group is exposed to credit risks of its customers

For domestic sales, the Group usually requests new customers to fully settle the purchases upon delivery and provides its existing customers credit terms of 30 to 60 days. For export sales, the Group requires customers to provide either upfront cash payment or letters of credit when placing their purchase orders, except for few long established customers to whom the Group offers 30 to 90 days' credit term. For the Group's licensing business, the Group allows 60 days' credit term for the licensees to settle their licensing fees. During the Track Record Period, the Group's impairment/(reversal) for doubtful debts amounted to approximately HK$[4,441,000], HK$[(913,000)] and HK$[(1,509,000)] respectively. However, there is no assurance that the Group will be able to fully recover its receivables from the customers or the licensees, or their settlement is made on a timely basis. In the event the settlement from the customers or licensees is not made in full or not on a timely basis, the Group's profitability, cash flow and financial position will be adversely affected.

The Group's distributors may engage in price competition and market cannibalisation among themselves

As at the Latest Practicable Date, the Group had contracted with [511] local furniture distributors, who operated over 600 approved shops to market the Group's branded home furniture products to end-users in the PRC. The Group chooses its distributors to ensure no approved shop is located and operated in the close proximity of one another and provides pricing guidelines to the approved shops which set out the recommended price range for each branded product. However, the distributors have full discretion as to the final retail prices for their respective shops and there is no assurance that the distributors would not engage in any form of price competition or market cannibalisation which may cause adverse damage to the Group's brand image and eventually affect the Group's sales.

The quality of products manufactured by the licensees may not be totally subject to the Group's control

Under the present licensing arrangement, the Group's licensees can use certain brand names of the Group's furniture products, and manufacture and market these products to their customers. The Group provides the licensees with detailed product designs, specifications and raw materials requirements. However, there is no assurance that the licensees will follow the product specifications and quality standards set by the Group. In the event that there are massive product defects, the reputation of the Group and the brand names under licence will be adversely affected.

The Group does not have any contractual relationships with the customers of its licensees, or any control over their sales operations

The Group has currently entered into licence agreements with four domestic furniture manufacturers which are all Independent Third Parties. Such furniture manufacturers pay licensing fees to the Group based on the quantity of furniture products they manufacture and sell to their customers, who are mainly furniture distributors in the PRC. Although the Group has entered into agreement with the licensees, it does not have any contractual relationships with the customers of its licensees, and there are no terms in the licence agreement to govern the sales operations managed by the licensees' customers. Therefore, if the licensees' customers are unable to deliver the level of sales services satisfactory to the end consumers when marketing the Group's products, the reputation of the Group and the brand names under licence will be adversely affected.

The Group is dependent on its major suppliers and contract manufacturers

During the Track Record Period, the Group had over [270], [250] and [180] suppliers respectively and the five largest suppliers included suppliers of raw materials and contract manufacturers who handled outsourced manufacturing of certain furniture products. The major raw materials supplied by the Group's five largest suppliers included MDF boards, ironware, paint and sponge. The Group has maintained business relationship with its five largest suppliers (who are Independent Third Parties) for approximately [3] to [13] years. For the year ended 31 December 2008, all of the Group's top five suppliers were from the PRC. Four of them were contract manufacturers, whose principal businesses included manufacture and sale of wooden, metallic and bedroom furniture products, sofa, and furniture spare parts, whilst the remaining one was a supplier of MDF boards. Purchases from the Group's five largest suppliers in aggregate represented approximately [27.7]%, [41.5]% and [49.8]% of the Group's total purchases and purchases from the largest supplier of the Group accounted for approximately [9.7]%, [14.6]% and [14.4]% of the Group's total purchases for each of the three years ended 31 December 2008 respectively. For the three years ended 31 December 2008, the total purchases from the contract manufacturers amounted to approximately HK$[107.7] million, HK$[141.7] million and HK$[180.7] million, representing approximately [36.0]%, [35.8]% and [41.7]% of the Group's total cost of sales respectively. The Group increased its purchases from the contract manufacturers in order to meet the growing demand for its unbranded furniture products from its overseas customers during the Track Record Period.

During the Track Record Period, the Group did not enter into any long-term procurement agreement with its suppliers. Instead, the Group entered into framework agreements governing the general terms of the supply of raw materials and outsourcing arrangements with its major raw material suppliers and contract manufacturers respectively. The pricing, quantity and delivery time of each order or outsourcing transaction are subject to further negotiation between the Group and the respective raw material suppliers or contract manufacturers on a deal by deal basis. As a result, there is no assurance that the Group will always be able to agree all the commercial terms with the raw material suppliers and the contract manufacturers on each of the orders and outsourcing transactions, or the Group's existing raw material suppliers and contract manufacturers will continue to accept the Group's orders on the terms as stipulated by the Group. In the event that any of the Group's major raw material suppliers or contract manufacturers materially reduces or ceases its supplies or services to the Group, and the Group fails to source the required raw materials from other raw material suppliers or to secure the services of other contract manufacturers to supply the same or similar types and quantities of finished products in a cost effective and timely manner, the business operations and financial performance of the Group may be adversely affected.

The Group is reliant on its key management personnel

The success of the Group depends, to a significant extent, on the expertise and experience of its Founders, Mr. Sung, Mr. Huang, Mr. Cheung and Mr. Chan, who are considered to be the Group's key management personnel. Being an executive Director, the chairman and the chief executive officer of the Company, Mr. Sung has over [15] years of experience in the furniture industry and is responsible for the overall strategic planning and business development of the Group. Mr. Huang, head of the Group's design and development department as well as the production department of the Group, has over [20] years of experience in the furniture industry and is responsible for overseeing the design, development and manufacture of the Group's furniture products. Mr. Cheung, an executive Director, has over [15] years of experience in the furniture industry and is responsible for the administration and human resources management of the Group as well as the overall management relating to the construction of the new production facilities of the Group in the PRC. Mr. Chan, head of the sales and marketing department as well as the procurement department of the Group, has over [15] years of experience in the furniture industry and is responsible for formulating the Group's sales and marketing strategies and procurement policies and overseeing the Group's sales and marketing activities. The Group's key management personnel are well-acquainted with market information and technical knowledge on manufacturing as well as sales and marketing of the home furniture products. Their experience and leadership are critical to the Group's operation and financial performance. There is no assurance that the Group can retain its key management personnel for their future services, nor can the Group assure that qualified personnel can be engaged to replace any possible loss of such key management personnel in a timely manner. If the Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner in the future, the Group's future operations may be adversely affected.

There is no assurance on sustainable growth of the Group

For the year ended 31 December 2007, turnover of the Group grew approximately 33.3% from approximately HK$[369.6] million in 2006 to approximately HK$[492.7] million in 2007 while the net profit of the Group grew from approximately HK$28.8 million in 2006 to approximately HK$[40.4] million in 2007, representing an increase of about 40.6%. Although for the year ended 31 December 2008, turnover of the Group [increased] to approximately HK$[534.3] million, the net profit of the Group [decreased] to approximately HK$[30.8] million, representing [a decrease] of approximately [23.8]% as compared to that in 2007. The decrease in the net profit for the year ended 31 December 2008 was mainly attributable to the decrease in licensing income received and the increases in selling and distribution expenses and administrative expenses incurred during the year. For details of the Group's trading results during the Track Record Period, please refer to the paragraph headed "Management discussion and analysis of the results of the Group" in the section headed "Financial information" in this document. There is no assurance that the Group will be able to restore its growth in profitability in future. The results of the Group during the Track Record Period should not be used as an indicator of the Group's future performance.

The Group has records of non-compliance in respect of employee social insurance and housing provident fund contributions in the PRC

During the Track Record Period, Shenzhen Xingli and Shenzhen Xingli Zundian made full contribution payments for employee social insurances in accordance with the above rules and regulations, but, with the understanding that the relevant local authorities in Shenzhen did not strictly require the payment for housing provident fund contributions, they did not make such contribution payments. The PRC Legal Advisers, when making enquiries with the relevant local authorities, were also given to understand that the relevant local authorities have not strictly required the payment of housing provident fund contribution.

As regards Dongguan Super Furniture, contribution payments for employee social insurances were made based on estimated numbers of employees which were less than the actual numbers, and no contribution payment for housing provident fund was made during the Track Record Period. Due to the relatively high turnover of factory workers at Dongguan Super Furniture, the Group's human resources department previously responsible for making payments for employee social insurances calculated the payment amounts based on estimated numbers of workers, rather than the actual numbers. However, the relevant local authorities indicated to the PRC Legal Advisers that, as a gesture in assisting local enterprises in the present global economic downturn, they would not strictly require Dongguan Super Furniture to settle any outstanding contributions for employee social insurances.

Dongguan Super Furniture also failed to make any housing provident fund contributions during the Track Record Period. As advised by the PRC Legal Advisers, they were given to understand, when making enquires with the housing provident fund management centre in Dongguan, that the relevant authorities had not imposed any strict requirement for payment of housing provident fund on enterprises operating in Dongguan due to the lack of details in the implementation measures in relation to the 住房公積金管理條例 (Regulations on Management of Housing Provident Fund) as promulgated by the State Council. The PRC Legal Advisers further advised that, with 東莞市住房公積金繳存管理辦法 (Measures on the Administration of Declaration and Payment of Housing Provident Fund in Dongguan) coming into effect on 1 December 2007, enterprises operating in Dongguan should have started making such contributions. Nevertheless, the housing provident fund management centre further represented to the PRC Legal Advisers that, until detailed administrative measures on imposing penalty on local enterprises for the failure in making contributions for housing provident fund have been laid out, they would not enforce any penalties on local enterprises for failing in making such contribution payments.

The Group has quantified the amounts of outstanding contributions for the employee social insurances and housing provident fund up to [31 December] 2008 to be approximately RMB[1,436,000] million and RMB[957,000] respectively and had made full provisions therefor in its accounts.

According to the PRC Legal Advisers, should the relevant local administrative authorities require the Group to settle the unpaid contributions in respect of the employee social insurances in the future and the Group fails to do so within the stipulated time limit, the Group will have to pay, in addition to its unpaid contribution, a maximum overdue penalty of 0.2% per day on the payment amount from the date when the amount becomes overdue to the date when the full payment is made. In addition, pursuant to 中華人民共和國勞動合同法 (PRC Labour Contract Law) which came into force on 1 January 2008, in the event that the Group's employees decide to cease their working relationships with the Group due to the Group's failure to make contributions to the employee social insurances, the Group is required to pay those resigned employees monetary compensation. Such compensation is calculated based on the length of services of such resigned employees with the Group since 1 January 2008 (i.e. one month salary for each full year of service and 50% of the monthly salary for less than half year's services). As regards the housing [provident] fund, according to the PRC Legal Advisers, the relevant housing provident fund management centre may order the enterprises to pay the outstanding contributions within a prescribed time, failing which such enterprises would be subject to a maximum penalty of RMB50,000. For further details of the aforesaid non-compliance incidents, please refer to the paragraph headed "Compliance and litigation" in the section headed "Business" in this document.

The Group has records of non-registration of lease agreements

The lease agreement of one of the Group's leased properties located in Shenzhen, the PRC, being the property numbered [9] referred to in the valuation report set out in Appendix III to this document, had not been registered with the relevant property leasing administration authority as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering the lease agreement with the relevant property leasing administration authority. This property has been used by Shenzhen Xingli for various purposes, including production facilities for home furniture products, offices and staff quarters.

According to the PRC Legal Advisers, the lease agreement for the above mentioned property is legally enforceable and the failure to register the same does not affect its validity. As further advised by the PRC Legal Advisers, the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, subsequent owner of the property has the right to require Shenzhen Xingli to move out from the property and thus, there is no assurance that the right of the Group to use and occupy this leased property will not be interfered with in the future and the Group may be required to relocate from this property.

With respect to one of the Group's leased properties in the PRC, being the property numbered [10] referred to in the valuation report set out in Appendix III to this document, no title documents had been provided by the relevant lessor evidencing its legal title to such property. This property is located in Shenzhen, the PRC and has been used by the Group for storage purposes. According to the PRC Legal Advisers, as the relevant lessor has not provided the Group with the relevant title document, its legal right to lease such property to the Group is in doubt. Accordingly, the PRC Legal Advisers are not able to opine on the validity and legality of the lease agreement of this property. As advised by the PRC Legal Advisers, the lessor has not provided the relevant title documents for registration, which resulted in the delay in registering the lease agreement with the relevant property leasing administration authority. The PRC Legal Advisers have also advised that the relevant lessor is liable for the failure to register the lease agreement and as such, Shenzhen Xingli would not be subject to any administrative penalty. However, there is no assurance that the rights of the Group to use and occupy this property will not be challenged in the future and the Group may be required to relocate from this property.

If the rights of the Group to use and occupy any of the above two leased properties are challenged or interfered with in the future as a result of the events as described above, there is no assurance that the Group would be able to secure a prompt relocation to suitable premises, nor can the Group assure that the relocation will not have any adverse impact on the Group which includes interruptions to production and incurrence of relocation costs. In addition, any unforeseeable damages and/or difficulties arising during the relocation of such leased properties may adversely affect the business operations and financial position of the Group.

Please refer to the paragraph headed "Properties" in the section headed "Business" in this document for further details of the aforesaid properties.

The Group has records of non-compliance of Hong Kong regulatory requirements

During the Track Record Period, two subsidiaries of the Company [inadvertently] failed to comply with the regulatory requirements in Hong Kong to (i) make timely filings in relation to certain company secretarial matters under the Companies Ordinance; or (ii) make timely application for business registration under the Business Registration Ordinance due to high staff turnover and lack of continuity in the staff of the finance and accounting department of the Group which was responsible to make filings/ apply for registration within the applicable prescribed time frame during the period from 2005 to 2006. In 2007, the present chief financial officer was recruited to head the financial and accounting department of the Group. In the course of reviewing the internal control of the Group, the chief financial officer, with the assistance of various professional parties, identified the Group's non-compliance with the Companies Ordinance and Business Registration Ordinance aforementioned and rectified the same as soon as practicable thereafter.

Late filings in relation to resignation of company secretary

Hing Lee Furniture Group Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company, made late filings in relation to the resignation of its secretary on 9 January 2006 with the Companies Registry after the prescribed deadline in contravention of the relevant provisions of the Companies Ordinance. The filing in relation to the resignation of the secretary was made in March 2008, which represent continued default of 714 days.

Based on the legal advice obtained by the Company, under the Companies Ordinance, an action for a summary offence thereunder may be tried if it is brought within 3 years after commission of the offence. As less than 3 years have elapsed after the last day of this continued default and based on the continued default of 714 days, the aggregate estimated maximum amount of potential fines arising from such non-compliance will not be more than HK$224,200, which represents the maximum punishment of a level 3 fine (being HK$10,000 at present) for the offence and a daily default fine of HK$300 for continued default upon conviction. However, the practical risk of Hing Lee Furniture Group Limited being penalised regarding its late filing cannot be ascertained because notwithstanding that the Companies Registry has the right to prosecute on non-compliance under the Companies Ordinance, the Companies Registry does not prosecute late filings on each occasion. There is no statutory duty on the Group to specifically report the late filings to the Companies Registry as instances of non-compliance. Given that the filing had been made and the Companies Registry should be aware of such late filings on the face of the information filed and that, up to the Latest Practicable Date, Hing Lee Furniture Group Limited had neither been prosecuted nor received any notice of prosecution in relation to the above non-compliance, the practical risk of prosecution and a realistic level of penalty cannot now be estimated.

Late application for business registration

Hing Lee Furniture commenced its business of trading of home furniture products in Hong Kong in April 2005 and was therefore required to apply for business registration under the Business Registration Ordinance within one month of its commencement of business. However, Hing Lee Furniture only applied for business registration on 13 October 2008.

Based on the legal advice obtained by the Company, any person who fails to make timely application for business registration shall be guilty of an offence and shall be liable to a maximum punishment of a fine of HK$5,000 and imprisonment for 1 year. The secretary, manager or any director of Hing Lee Furniture shall also be answerable for such non-compliance. As the Founders have been the directors of Hing Lee Furniture since the commencement of its business, they may be held liable for imprisonment as stipulated under the Business Registration Ordinance on conviction. Should the Founders be sentenced to imprisonment as a result of such non-compliance and the Group cannot retain or otherwise find a suitable replacement for its key management personnel in a timely manner, the Group's business and operations may be adversely affected.

During a verbal general enquiry with an officer of the Business Registration Office on the prosecution policy of this type of non-compliance, the legal adviser of the Company was informed that if a company volunteered to make a late application for business registration, there would not be any penalty but the company would be required to pay the business registration fees for the past years. According to such officer, no one had been sentenced to imprisonment as a result of a failure to obtain business registration so far. [Based on the information obtained in the verbal enquiry, the Company's legal advisers also consider that the practical risk of the secretary, manager or directors being prosecuted and sentenced to imprisonment upon conviction as a result of such non-compliance appears to be relatively low.] However, there is no assurance that Hing Lee Furniture and/or the secretary, manager or any director of Hing Lee Furniture will not be subject to any prosecution. Under the Business Registration Ordinance, prosecution thereunder may be commenced within 6 years from the date of the commission of the offence (that is up to [4] May 2011).

The Group has a record of non-compliance with the Inland Revenue Ordinance

In April 2005, as the Group acquired Hing Lee Furniture to handle the trading business in Hong Kong, it started to recruit accounting professionals in Hong Kong to take charge of its finance and accounting department. However, during the period from 2005 to late 2006, the Group experienced rather high staff turnover in the finance and accounting department and the head of finance and accounting department had changed three times. Due to the lack of continuity in the staff of the finance and accounting department, Hing Lee Furniture failed to notify the IRD of its chargeability to tax within the prescribed time limit for the years of assessment 2005/2006 to 2007/2008.

At the time of finalising its accounts in around November 2007, Hing Lee Furniture became aware of the possibility that it might be subject to Hong Kong tax. However, it was not certain of the extent of its exposure. The Group's chief financial officer initially discussed the issue with Hing Lee Furniture's auditors. In March 2008, Hing Lee Furniture approached a firm of tax accountants which was subsequently formally engaged to handle its tax reporting in June 2008. Hing Lee Furniture submitted its profit tax returns for the relevant years of assessment in December 2008. As advised by [the tax accountants], the estimated undercharged tax for these three assessment years is approximately HK$[2,660,752] in aggregate and, as Hing Lee Furniture has made voluntary disclosure to the IRD, it is likely that the Company will be penalised under IRD's "full voluntarily disclosure" scale in which the maximum penalty is 45% of the tax undercharged. Based on the recommendation of the tax accountants, a provision for the additional tax or penalty in the amount of HK$[2,660,752], representing 100% of the estimated undercharged tax, has been made in the accountants' report as set out in Appendix I to this document. On 23 January 2009, the IRD issued assessments demanding final tax for 2005/2006, 2006/2007 and 2007/2008 with a total tax payable of HK$408,867, HK$1,499,863 and HK$720,582 respectively. The amounts were fully paid on 3 March 2009 in accordance with the payment schedule of the IRD. Pursuant to the Deed of Indemnity, the Founders and their investment vehicles have agreed to indemnify the Group for any fines arising from such non-compliance.

Pursuant to the Inland Revenue Ordinance, any person who, without reasonable excuse, fails to inform the IRD of its chargeability to tax shall be guilty of an offence and liable for a level 3 fine (i.e. a fine of HK$10,000 at present) and a further fine of treble the amount of tax which has been undercharged in consequence of such failure, and no person shall be liable unless the complaint concerning such offence was made before the expiration of 6 years from the end of the relevant year of assessment. Alternatively, the IRD may, instead of prosecution, impose an additional tax for a maximum amount of treble the amount of tax which has been so undercharged and there is no express stipulation as to the period within which the IRD could take action against Hing Lee Furniture for the imposition of additional tax under the Inland Revenue Ordinance. [Up to the Latest Practicable Date, Hing Lee Furniture had neither been prosecuted nor levied with any additional tax penalty and the practical risk of prosecution and a realistic level of fine cannot be ascertained now.]

Shenzhen Xingli and Shenzhen Xingli Zundian may be required to pay additional income tax for the Track Record Period

Prior to 2008, Shenzhen Xingli and Shenzhen Xingli Zundian were entitled to the preferential income tax rate of 15% granted under a preferential tax policy issued by the Shenzhen Municipal Government. However, according to the PRC Legal Advisers, there was no clear statutory basis for granting of such preferential tax rate. As further advised by the PRC Legal Advisers, both Shenzhen Xingli and Shenzhen Xingli Zundian should be subject to an enterprise income tax rate of 24% prior to 2008. However, as far as the Directors are aware, Shenzhen Xingli and Shenzhen Xingli Zundian are among many other foreign enterprises in Longgang District and Baoan District in Shenzhen which have enjoyed the said preferential treatment. The Directors note that (i) the granting of the said preferential enterprise income tax rate was based upon a notice from the Shenzhen Municipal Government that is generally applicable to entities within the Shenzhen Municipality; (ii) the payment of tax at the preferential rate of 15% has been approved by the local relevant authorities; and (iii) as at the Latest Practicable Date, no foreign invested enterprises located in Baoan District and Longgang District in Shenzhen have been required to make payment above the preferential tax rate of 15%.

Pursuant to the New EIT Law which took effect on 1 January 2008, foreign invested enterprises in the PRC are subject to corporate income tax at a rate of 25% starting from 1 January 2008. The PRC Legal Advisers have advised that according to 企業所得稅納稅須知 (Notice on Payment of Enterprise Income Tax) issued by 深圳市國家稅務局 (Shenzhen Municipal Office of the State Administration of Taxation) on 3 July 2008, Shenzhen Xingli and Shenzhen Xingli Zundian were subject to an enterprise income tax rate of 18% in 2008.

The Directors consider that each of Shenzhen Xingli and Shenzhen Xingli Zundian has been paying income tax in accordance with the tax demands issued by the relevant tax bureau. Each of Shenzhen Xingli and Shenzhen Xingli Zundian has received a written confirmation dated 2 March 2009 and 12 March 2009 respectively from 深圳市龍崗區國家稅務局布吉稅務分局 (Office of the State Administration of Taxation of Longgang District of Shenzhen, Buji Branch) confirming that there was no tax payment overdue up to the date of the respective confirmation.

Nevertheless, there is no assurance that the tax treatment granted to Shenzhen Xingli and Shenzhen Xingli Zundian would not be revoked, and, as a consequence, Shenzhen Xingli and Shenzhen Xingli Zundian may be required to pay the undercharged amount of tax arising from the difference between the applicable enterprise income tax rate (i.e. 24% for 2006 and 2007 and 25% for 2008) and the tax rates enjoyed by Shenzhen Xingli and Shenzhen Xingli Zundian (i.e. 15% for 2006 and 2007 and 18% for 2008). In such case, the undercharged income taxes that the Group may be required to pay would be approximately HK$[98,000], HK$[587,000] and HK$[888,000] for the three years ended 31 December 2008 respectively, after taking into account Shenzhen Xingli and Shenzhen Xingli Zundian's entitlements under the income tax exemption for two years from the first year of profit and a 50% reduction for the following 3 years for foreign invested enterprise.

The Group's newly established internal control system is not totally proven

During the Track Record Period, the Group inadvertently failed to comply with certain laws, rules and regulations of the PRC and Hong Kong, of which the non-compliance incidents are set out in the paragraph headed "Compliance and litigation" in the section headed "Business" in this document. In view of the occurrence of the non-compliance incidents, in December 2008, the Group has set up a compliance department to ensure that the Group's operations are in compliance with the applicable laws, rules and regulations. The compliance department consolidated various policies and procedures in respect of a number of operational aspects including [sales and procurement, cash management, financial reporting and fixed asset acquisition] together with other corporate governance practices into a compliance manual.] As the compliance department was only recently set up and implementation of the aforesaid compliance manual has just begun in early 2009, there is no assurance of the sufficiency and effectiveness of the Group's internal control nor the Group would not fail to comply with any laws, rules and regulations in any jurisdiction in the future.

Any increase in the prices of raw materials or shortage of raw material supplies may adversely affect the Group's profitability

During the Track Record Period, the Group mainly used MDF board, ironware and paint as raw materials for the manufacture of its products. For each of the three years ended 31 December 2008, the total costs of raw materials accounted for approximately [52.6]%, [53.1]% and [46.0]% respectively of the total cost of sales of the Group. [MDF board is the largest component among the raw materials used in the Group's wood-based furniture products, which accounted for approximately [19.1]%, [21.3]%, and [19.3]% of the Group's total cost of sales respectively and approximately [36.2]%, [40.1]% and [42.0]% of its total costs of raw materials respectively for the three years ended 31 December 2008. During the Track Record Period, the Group experienced a general increase in the purchase price of MDF board. For example, the average unit purchase prices of two major types of MDF board utilised by the Group, namely 18 mm and 25 mm MDF board, increased from RMB[89.0] and RMB[127.3] to RMB[92.8] and RMB[136.0] respectively during the Track Record Period. The Group's procurement department monitors the market prices of major raw materials and analyzes the price movements with an aim to controlling the production costs. Based on the information provided by the procurement department, the Group's sales and marketing department reviews the prices of the Group's products and adjusts the selling prices to reflect changes in the prices of raw materials. However, in order to stay competitive in the market, the adjustment in sales price of the Group's products, in most cases, may not fully cover such increments.] The Directors estimated that for every 1.0% increase in the price of raw materials used in the Group's production, there would be approximately [5.4]%, [4.8]% and [5.5]% decrease in the Group's profit attributable to equity holders respectively for the three years ended 31 December 2008, assuming all other factors which would affect the Group's performance remained unchanged. A 1.0% decrease in the price of raw materials used in the Group's production would have an equal but opposite effect on the Group's profit attributable to equity holders. If there are constant upward adjustments to the prices of these raw materials and the Group is unable to pass the incremental costs to its customers or the Group is unable to secure adequate supply of such raw materials at commercially viable prices to meet its ongoing production requirement, the Group's profitability may be adversely affected.

The Group is dependent on its trademarks and other intellectual property rights

As at the Latest Practicable Date, the Group owned [29] trademarks registered in the PRC, [7] trademarks registered in Hong Kong and [6] patents registered in the PRC. Please refer to the sub-section headed "Intellectual property" in Appendix V to this document for the validity period of the trademarks and patents owned by the Group. As at the Latest Practicable Date, the Group has also applied for the registration of [10] trademarks in the PRC, [1] trademark in Italy and [34] patents regarding certain product designs of the Group's home furniture products in the PRC. In relation to the pending applications of the Group for registration of trademarks in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家工商行政管理總局商標局 (Trademark Office of State Administration for Industry and Commerce of the PRC). In relation to the pending application of the Group for registration of trademark in Italy, according to a legal opinion from an Italian legal adviser obtained by the Group, [under normal circumstances, the completion of the registration procedures is expected to take three to four years from the filing date.] Whereas in relation to the pending applications of the Group for registration of patents in the PRC, according to the PRC Legal Advisers, the time required for completion of the registration procedures cannot be ascertained as it will depend on the progress of the examination and approval procedures of 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC).

The Group's success depends in part on the trademarks and other intellectual property rights, including design patents, which the Group owns. In order to protect its rights over these trademarks and intellectual property, the Group has taken steps to apply for registration of the same with relevant governmental authorities. However, such protection may be compromised by (i) the expiration of the registration period of the registered intellectual property (the registration period for trademarks registered in Hong Kong and the PRC is 10 years from the date of registration, which, according to the laws currently in force, may be renewed for successive periods of 10 years, subject to payment of the prescribed fee, the compliance of procedural formalities and in respect of trademarks registered in the PRC, the grant of approval and publication by the PRC Trademark Office, whereas the registration period for patents registered in the PRC is 10 years from the date of filing, which is not subject to any further renewal after its expiry), (ii) infringement by third parties of the Group's intellectual property rights including, for example, counterfeiting the brands, designs or products of the Group, or (iii) delay or refusal by relevant regulatory authorities to approve pending intellectual property registration applications. Any occurrence of these events may have a material adverse effect on the Group's business.

The Group may suffer product liability claims and has limited insurance coverage

The Group does not maintain any insurance to cover the product liability risk in the PRC or its exporting markets. Pursuant to 中華人民共和國產品質量法 (Product Quality Law of the PRC), the Group may be subject to product liability claims in the event that any of its products is alleged to have caused any personal injury or other adverse effects. In addition, 中華人民共和國消費者權益保護法 (Law of the PRC on the Protection of the Rights and Interests of Consumers) protects the rights of consumers in respect of the safety of person and property in the purchase and use of goods and services. 深圳市質量技術監督局 (Shenzhen Bureau of Quality and Technical Supervision) and 深圳市工商行政管理局 (Shenzhen Industrial and Commercial Administration Bureau) are authorised to impose penalties on the manufacturers and sellers who have violated the aforesaid regulations. As advised by the PRC Legal Advisers, product liability insurance is not compulsory under the PRC law. As such, the Group does not maintain insurance to cover the related product liability risk. As regards the Group's export sales, it is the Directors' understanding that any product liability claim brought by the end consumer in the overseas markets would be handled by the relevant overseas customer locally. However, the Group cannot assure that it would not be named as a defendant in any lawsuit or proceeding brought by the end consumer in respect of the product liability claim. Furthermore, if the relevant overseas customer can prove that the product quality deficiency which gives rise to the product liability claim is caused by the Group's fault, the relevant overseas customer may claim against the Group.

Up to the Latest Practicable Date, the Group has not received any claims from customers against it in respect of product liability.] In the event that the Group is held liable for any material losses or damages in respect of product liability claims, the results of operations and financial performance of the Group may be adversely affected.

[The Group's operation may be adversely affected by the delay in the construction of Shenzhen Xingli Zundian Production Base

The Group intends to utilise Longgang Land II for the construction of the Shenzhen Xingli Zundian Production Base. The PRC Legal Advisers have advised that the construction on such land should commence on or before 26 October 2008 and should be completed on or before 26 October 2009. As advised by the PRC Legal Advisers, the construction of the Shenzhen Xingli Zundian Production Base has commenced in July 2008. However, the Directors have confirmed that construction work has been suspended after the completion of the foundation works for the factory building since January 2009 as access to Longgang Land II was denied pending the inspection approval of the neighbouring public road works by the relevant authorities. According to the PRC Legal Advisers, the relevant land bureau may impose a penalty against Shenzhen Xingli Zundian in the event of delay in the construction on Longgang Land II, details of which are set out in the paragraph headed "Properties" in the section headed "Business" in this document. The Directors estimate that the maximum penalties that may be imposed on the Group in the event of delay in the construction on Longgang Land II will be approximately RMB[3.16] million for a delay not exceeding two years. The PRC Legal Advisers have also advised that in the event Shenzhen Xingli Zundian does not complete construction on Longgang Land II within two years after the prescribed deadline for construction completion (i.e. 26 October 2009), the relevant land bureau is entitled to resume the land without any compensation. The PRC Legal Advisers visited the relevant land bureau and were given to understand that Shenzhen Xingli Zundian could apply for an extension of the deadline for construction completion after the grant of the inspection approval of the neighbouring public road works by the relevant authorities. The PRC Legal Advisers are of the opinion that there is normally no legal obstacle for the Group to obtain such extension if the delay in construction is caused by the delay of completion of public road works. The Group currently expects that the construction of the Shenzhen Xingli Zundian Production Base will be resumed in around June 2010 and will be completed in [around mid 2011]. If any penalty is imposed on Shenzhen Xingli Zundian as a result of the delay in the construction of the Shenzhen Xingli Zundian Production Base or if the Group fails to obtain the extension as mentioned above, the Group's operation may be adversely affected.]

The Group's owned properties cannot be transferred to third parties

As at the Latest Practicable Date, the Group owned two pieces of land (the "Land") located at Kengzi Town, Longgang Industrial Area, Longgang District, Shenzhen, the PRC, namely Longgang Land I and Longgang Land II. The Group is currently constructing the Shenzhen Xingli Production Base on Longgang Land I and intends to build the Shenzhen Xingli Zundian Production Base on Longgang Land II. For more information about these production bases, please refer to the sub-paragraph headed "Owned properties" in the paragraph headed "Properties" in the section headed "Business" in this document. Details of the Land are stated under the properties numbered 1 and 2 in the valuation report as set out in Appendix III to this document. As at 31 December 2008, the net book value of the Land and the construction in progress thereon amounted to approximately HK$[98.95] million.

According to the PRC Legal Advisers, as the Group has obtained 深圳市建設用地規劃許可證 (Shenzhen Planning Permit on Land for Construction Use) and Real Estate Ownership Certificate in respect of each of Longgang Land I and Longgang Land II, and the considerations payable under the relevant contracts for grant of land use rights have been settled in full, the Group possesses the land use rights of the Land for a term of 50 years up to 28 June 2057 for industrial use. The PRC Legal Advisers have further advised that it is a condition of the contracts for grant of land use rights of the Land that the land use rights of the Land are not allowed to be transferred or leased. As a result, the valuer has assigned no commercial value to the Land.

As advised by the PRC Legal Advisers, the non-transferability of the Land does not affect the Group's rights to the Land. The PRC Legal Advisers have also advised that as the Group is the legal owner of the land use rights of the Land, it has the right to use the Land as collaterals for banking facilities. The Group has mortgaged Longgang Land I in favour of a bank as security for banking facilities amounting to RMB70.0 million. As advised by the PRC Legal Advisers, the mortgage over Longgang Land I is legal and valid.

Should the Group not utilise the Land and the factories thereon for its own production, it would not be possible for the Group to dispose of the Land as it is prohibited from doing so as mentioned above. In such event, the Group's liquidity position may be adversely affected.

The Group may not be able to fulfill its obligations under an undertaking to secure its existing banking facilities

In November 2007, the Group obtained banking facilities amounting to RMB70.0 million of which RMB60.0 million would be applied to the construction of the Shenzhen Xingli Production Base and RMB10.0 million would be used as general working capital. The banking facilities were secured by, among other things, a letter of undertaking provided by the Group whereby the Group undertakes to execute a legal charge over Longgang Land I and mortgage its factory premises located at the Shenzhen Xingli Production Base which is under construction on Longgang Land I upon the availability of building ownership certificate on or before 31 December 2009. The construction of the Shenzhen Xingli Production Base is expected to be completed in June 2009. However, there is no guarantee that the construction will be completed as scheduled and the Group would obtain the relevant ownership certificate on or before 31 December 2009. In the event that the Group fails to obtain the relevant ownership certificate on or before 31 December 2009, the bank reserves the right to cancel the banking facilities and to demand full repayment of any outstanding sum owed to the bank without further notice. Should the Group be forced to repay its loan under such circumstance, it may adversely impact the financial position of the Group.

The Group's business is subject to seasonality factors

During the Track Record Period, the Group's sales experienced a seasonal pattern. The Group typically achieved higher sales in the PRC in [the months of April, August, September, October and December]. The sales generated in these months in aggregate accounted for approximately [57.5]%, [49.3]% and [48.8]% respectively of the total domestic sales during the Track Record Period. The Directors attribute the higher sales recorded during these months to the consumers' tendency to spend during the shopping seasons in summer and the months leading to the extended Chinese holidays in May, October and Chinese New Year. The Group's sales to the overseas markets were also normally higher in [the months of March, April, August, September and December]. Sales generated in these periods in aggregate accounted for approximately [51.5]%, [47.6]% and [46.5]% respectively of the total sales from the overseas markets during the Track Record Period. The Directors believe that higher sales were mainly due to increases in purchases driven by shopping seasons in particular the summer and the holiday seasons of Christmas and New Year. For both the domestic and overseas markets, the month of February was generally regarded as the slowest season in the Track Record Period.

The Group's operating results may fluctuate from period to period. Therefore, comparison of the Group's operating results between any interim periods may not be meaningful and these comparisons may not be an accurate indicator of the Group's future performance.

Implementation of the Group's future plans may not take place as planned

The Directors have prepared the Group's future plans after due consideration by reference to their perceptions of the prospects of the furniture business. The details of the Group's future plans are set out in the section headed "Future plans" in this document. The successful implementation of the Group's future plans may be affected by a variety of factors including significant business, economic and competitive uncertainties and contingencies that are beyond the Group's control and could postpone or increase the costs of implementation. Such potential events relating to its expansion plans include, but not limited to, delays in the delivery and installation of manufacturing equipment, seasonal fluctuation, labour disputes or civil unrest, additional costs in relation to the measures in compliance with the environmental laws, rules and regulations, delays in securing the necessary governmental approvals and land use rights, economic downturn, and changes to plans for additional facilities in order to cope with changes in market conditions.

RISKS RELATING TO THE INDUSTRY

The Group faces competition from competing brands

The market in which the Group operates is competitive. The Group faces competition from a number of existing local market players. Any increase in competition in the industry may result in price reduction. In measuring the sensitivity of the Group's profitability towards changes in selling prices of the furniture products, the Directors estimate that a 1.0% change in the average selling price of the Group's products will lead to a change of approximately [11.7]% in the Group's profit attributable to equity holders for the year ended 31 December 2008, assuming all other factors that would affect the Group's performance remain unchanged. The Group sets the pricing of its branded and unbranded home furniture products with reference to a number of factors including, among others, costs and prices set by other manufacturers and the potential market demands. However, as the furniture industry is fragmented and competition among industry players is intense, the Group may not be able to pass each and every cost increment either partially or fully to its customers. In the event that there is a substantial increase in the costs of sales but the Group is unable to adjust its prices due to keen competition, the financial performance of the Group may be adversely affected.

Furthermore, the Group's success depends on its ability to compete effectively against its competitors' brands and products and its ability to enhance the value and popularity of its brands. There is no assurance that the Group would be able to compete successfully in the future. In the event that the Group is not able to compete effectively against its competitors' brands and products, its sales and profit margins will be adversely affected.

Reduction in the PRC general import tariff rates may further intensify market competition

According to the information available on the website of the Shanghai Customs' Online Service Centre [on the Latest Practicable Date], the most favorite nations' import tariff rates and the general tariff rates of wood-based furniture products are currently [0]% and [100]% respectively. The term "most favorite nations" in the context of PRC tariff schedules refers to the members of the World Trade Organisation and other nations that have bilateral trade agreements with the PRC. Furniture companies from the most favorite nations may take advantage of such preferential import tariff treatments to export their wood-based furniture products into the PRC. Should the general import tariff rates be lowered, there is no assurance that furniture companies which currently are not entitled to the preferential import tariff treatment would not expand their business to the PRC market. In the event that a large number of foreign furniture companies expand their business to the PRC market, the Group may not be able to maintain its competitive edge and its profitability may be adversely affected.

Changes in trends of the home furniture market may affect the Group's business

The Directors consider that the success of the Group depends in part on its strong product design and development capability and its ability to anticipate, identify and respond effectively to changing market trends and consumers' tastes. There can be no assurance that the Group will be able to continue to develop furniture products which appeal to consumers or successfully meet the ever-changing consumer demands in the future. Moreover, due to the fragmented characteristic of the home furniture market in the PRC, the Group may not be able to differentiate its products from those of its competitors. In the event that the Group fails to effectively anticipate, gauge and respond to the changing market trends and consumers' tastes, or is unable to differentiate its products from those of its competitors, demand for the Group's products may decrease and the Group's operating results and financial performance would in turn be adversely affected.

Anti-dumping duties relating to export sales could affect the Group's business

The Group sells its furniture products to its overseas customers on an FOB basis, that is [customers pay the costs of marine or freight transport, insurance, unloading, and transportation from the loading port to the final destination and the passing of risks of the products occurs at the port of loading]. In case there are any trade restrictions such as anti-dumping duties, tariffs and quota fees imposed by the countries to which the Group exports its products, it is customary for the Group's overseas customers to settle such costs. During the Track Record Period, so far as the Directors are aware, among the overseas markets where the Group exported its products, only the U.S. imposed anti-dumping duties on wooden [bedroom] furniture products imported from the PRC, and the anti-dumping duties imposed on the Group's wooden bedroom furniture products during the Track Record Period are set out below:

1 January 2006 – 31 December 2006	32.23%
1 January 2007 – 20 August 2008	7.24%
20 August 2008 – 31 December 2008	18.82%

For the three years ended 31 December 2008, the Group's export sales which were subject to U.S. anti-dumping duties amounted to approximately HK$[16.8] million, HK$[21.0] million and HK$[13.7] million, representing approximately [8.7]%, [8.3]% and [5.2]% of the Group's export sales respectively. During the same periods, the Group recorded sales to the U.S. market of approximately HK$[23.3] million, HK$[35.0] million and HK$[31.0] million respectively, representing approximately [6.3]%, [7.1]% and [5.8]% of the Group's turnover respectively.

During the Track Record Period, the Group did not pay any anti-dumping duties for its exports to the U.S., [as it was agreed between the Group and the relevant overseas customers that the anti-dumping duties would be borne by the relevant overseas customers.]

Set out below are the U.S. anti-dumping duties imposed on the Group's wooden bedroom furniture products from 1 January 2009 up to the Latest Practicable Date:

1 January 2009 – 27 January 2009	18.82%
28 January 2009 – 26 March 2009	33.38%
27 March 2009 up to the Latest Practicable Date	32.23%

As at the Latest Practicable Date, the Group had been approved by the U.S. Department of Commerce to be eligible for separate-rate status in relation to the anti-dumping duties on exports of wooden bedroom furniture from the PRC, and the anti-dumping rate imposed on the Group's wooden bedroom furniture was [32.23]% as compared to the rate of 216.01% that would be applied to all other exporters of wooden bedroom furniture from the PRC not eligible for separate-rate status. In the event that the Group is required to pay the anti-dumping duties or tariffs or quota fees or there is substantial rise in the anti-dumping duties imposed on the Group's wooden bedroom furniture products as a result of the Group being not eligible for separate-rate status as mentioned above, which will increase the costs of wooden bedroom furniture products purchased by the Group's relevant overseas customers, the Group's export sales may be adversely affected.

The Group may be adversely affected by the recent global financial turmoil and economic downturn

The recent financial turmoil and credit crunch have adversely affected the global economy and caused economic downturn as well as decrease in consumer spending in most countries. As a consequence, it is expected that households may reduce their spending on purchasing durable goods including furniture products in 2009. In the PRC, the sluggish property market and the slowdown in the economy may also negatively impact the amount of furniture products that the market can take up as a whole in 2009. Furthermore, financial institutions have been reducing their loan exposure and increasing the costs of borrowing to corporations. This may result in the reduction or termination of the banking facilities currently available to the Group, or the increase in the interest burden on the Group's bank borrowings. For the first quarter of 2009, the Group's domestic sales, licensing income and export sales experienced a decrease of approximately [15.1]%, [14.6]% and [12.8]% respectively as compared with the corresponding period of 2008. Should the economic downturn and decrease in consumer spending continue, the Group's business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO THE PRC

Economic and political considerations

The PRC's economy differs from the economies of most developed countries in many aspects, including the amount of government intervention, level of infrastructure development, level of capital reinvestment, control of foreign exchange and allocation of resources. Over the past two decades, the PRC government has undertaken reform measures in its economic and political systems, resulting in significant economic growth in the PRC. However, there is no assurance that the PRC government will continue to pursue such reforms or that all the reform measures implemented will be effective. As substantially all of the Group's operations are conducted in the PRC, changes in the general economic and political environment in the PRC and changes in the economic policies of the PRC government may directly or indirectly affect the business, the results of operations and the financial position of the Group.

Legal and regulatory considerations

Since 1979, legislative bodies in the PRC have promulgated laws, rules and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, the enforcement, implementation and interpretation of existing laws, rules and regulations may involve uncertainties as the judiciary system of the PRC is still evolving. The legal system of the PRC is based on statutes and, therefore, precedent legal cases do not have binding legal effects notwithstanding that they are often followed by judges of the PRC courts as guidance. The introduction of new PRC laws, rules and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, there is no assurance that changes in legislation or the interpretation thereof will not have any adverse impact on the Group.

Foreign exchange rate risk

The Group earns revenues in [US dollars, Renminbi and Hong Kong dollars] and incurs costs and expenses mainly in [Renminbi and Hong Kong dollars]. During the Track Record Period, approximately [45.0]%, [45.8]% and [45.7]% of the Group's sales was denominated in Renminbi respectively, whereas approximately [45.2]%, [47.7]% and [48.4]% was denominated in US dollars respectively and approximately [9.8]%, [6.5]% and [5.9]% was denominated in Hong Kong dollars respectively. The Group's manufacturing operations are based in the PRC and its costs of sales are mainly denominated in Renminbi. During the Track Record Period, the Group's costs of sales of approximately [73.2]%, [77.5]% and [77.2]% was denominated in Renminbi respectively, and approximately [26.8]%, [22.5]% and [22.8]% was denominated in US dollars respectively. The costs of sales settled in US dollars were mainly settlement payments to contract manufacturers, which amounted to approximately US$[10,352,000], US$[11,526,000] and US$[12,753,000] respectively for the three years ended 31 December 2008.

As at 31 December 2006, 2007 and 2008, approximately [60.8]%, [56.9]% and [64.5]% of the Group's bank balances and cash was denominated in Renminbi respectively, whereas approximately [15.9]%, [16.3]% and [27.8]% was denominated in US dollars respectively, and approximately [23.3]%, [26.8]% and [7.7]% was denominated in Hong Kong dollars respectively. As at the Latest Practicable Date, the Group's borrowings were denominated in Renminbi. As the Group's financial statements are expressed in Hong Kong dollars and the exchange rate of Hong Kong dollars is pegged to US dollars, the Group is exposed to foreign exchange risks arising from fluctuation in Renminbi. During the Track Record Period, the Group recorded a foreign exchange loss of approximately HK$[698,000] and HK$394,000 for the years ended 31 December 2006 and 2008 respectively and a foreign exchange gain of approximately HK$[1,190] for the year ended 31 December 2007. Currently, the Group does not maintain any hedging policy with respect to the associated exchange rate risks as the availability of hedge instrument is limited in the PRC.

After [●], the Company's accounts will be stated in Hong Kong dollars and payment of dividends will also be stated in Hong Kong dollars. At present, Renminbi is not freely convertible to other currencies. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. Furthermore, the Group's profitability may be adversely affected as a result of fluctuation in the exchange rates between the currencies in which the Group's purchases, expenditures and sales are respectively denominated.

RISKS RELATING TO THE SHARES

Forward-looking statements should not be unduly relied upon

This document contains various forward-looking statements which can be identified by the use of forward-looking terminologies such as "may", "will", "expect", "anticipate", "continue", "believe" and other similar expressions. The Group and the Directors have made forward-looking statements with respect to, among other things, the following:

- the Group's strategies to achieve its business objectives; and

- the importance and expected growth of the industry in which the Group operates.

Such forward-looking statements are based on assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove incorrect, the forward-looking events or circumstances described in this document might not occur in the way the Group expects. Accordingly, investors should not place undue reliance on such forward-looking statements.

Dividends paid in the past may not be indicative of the amount of future dividend payments or the Group's future dividend policy

For the three years ended 31 December 2008, the Company declared a final dividend of an aggregate amount of nil, approximately HK$[17.3] million and HK$[4.0] million respectively. The dividends declared and paid as aforesaid do not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner in the future or at all. Particulars of the dividend policy to be adopted by the Group following [●] are set out in the paragraph headed "Dividend policy" in the section headed "Financial information" in this document. There can be no assurance and in fact it is not expected that the amount of dividends which may be declared by the Company in the future, if any, will be at the level declared and paid by the Company immediately prior to [●].

The industry information and statistics contained in this document may not be unduly relied upon

Certain industry information and statistics contained in the section headed "Industry overview" in this document are derived from government official publications. Such information has not been independently verified by the Company and may be inconsistent, inaccurate, incomplete or outdated.

None of the Company, [●], their respective directors and advisers or any other parties involved in [●] make any representation as to the accuracy or completeness of such information and, accordingly, such information should not be unduly relied upon.