RISKS RELATING TO THE GROUP

The Group and the JVs may lose their licences to deal in their licensed brands or may not be able to renew them on commercially reasonable terms or at all

The Group has the right to, amongst other things, manufacture and retail certain categories of products of the licensed brands in the markets where it operates. Most of the licences are for a term of six to ten years and are renewable subject to certain renewal conditions. For the year ended 31 December 2008 and the six months ended 30 June 2009, the Core Business's revenues from its licensed brands (other than the Kent & Curwen brand) represented approximately 62.7% and 63.7% of the total revenues of the Core Business, respectively.

The Group acquired the Kent & Curwen brand globally in 2008. Nevertheless, a substantial portion of the Group's revenue has been, and will still be, derived from its licensed brands. There is no assurance that the Group will be able to fulfil all of the renewal conditions in order to retain such licences. If the Group loses any of such licences, its business as well as its financial results may be adversely affected.

In addition, the JVs may also not be able to renew their licences with the relevant Brand Owners, nor is there any guarantee that such licences will not be terminated during their current term. If any of the licences are terminated or not renewed, the Group's business as well as its results of operations may be adversely affected.

The Group and the JVs may not be able to effectively promote or develop their brands

The Group and the JVs strive to position their self-owned and licensed brands as high-to-luxury end apparel brands. Brand image is an important factor which affects a consumer's purchasing decision with respect to the Group's products. To effectively promote these brands, the Group and the JVs would have to be able to build and maintain the brand image by focusing on a variety of promotional and marketing activities to promote brand awareness, as well as to increase their presence in the markets in which they operate by expanding their retail network. There is no assurance that the Group and the JVs will be able to effectively promote or develop these brands and if they fail to do so, the goodwill of such brands may be undermined, and accordingly the Group's business as well as its financial results may be adversely affected.

The Group and the JVs may not be able to renew the leases of their retail stores on favourable terms or at all

All of the retail stores of the Group and the JVs are currently located at prime locations under leases which are for relatively short terms of less than four years. As at the Latest Practicable Date, the percentage of leases expiring (i) by December 2009, (ii) by December 2010 and (iii) thereafter are approximately 9.9%, 57.2% and 21.0%, respectively. The Group does not have a right of renewal for a majority of such leases. There is no assurance that each of the leases will be renewed upon expiry or on favourable terms. If the Group and/or the JVs are unable to renew such leases or unable to renew them on reasonable terms, they would need to relocate the relevant retail stores, which could be difficult given that prime locations are generally limited. Renewal of leases at unfavourable terms will result in increased rental expenditure for the Group and/or the JVs. In addition, if the Group or the JVs are forced to relocate their retail stores, it will result in a disruption to their businesses. Other related costs such as renovation costs will also be incurred. In all such cases, the Group's sales as well as its financial results may be adversely affected.

The Group may not be able to manage the rapid growth of its retail network effectively

The Group has a broad menswear retail network in the markets where it operates. The Group intends to continue expanding its retail network, particularly in Mainland China. The Group increased the number of its retail stores from 225 as at 31 December 2006 to 292 as at 31 December 2007, and to 345 as at 31 December 2008 and to 353 as at 30 September 2009. The Group may not be able to successfully manage the rapid growth of its retail network effectively despite adopting various measures or strategies. Therefore, there is no assurance that the intended growth of the Group's retail network can be achieved or will be profitable. If the expansion of the retail network is not successfully managed, the Group's operating costs may increase and the Group's sales and financial results may be adversely affected. In addition, in the event of an economic downturn, which may adversely affect the profitability of the stores, this could result in longer lead-time for new stores to reach their optimal operating levels.

The Group and the JVs may not respond in a timely manner to changes in fashion trends and consumer spending patterns

The apparel industry is highly susceptible to changes in fashion trends and fluctuations in consumer preferences and demands. In order to achieve continued and sustained success in the Group's business, the Group and the JVs must be able to predict, identify and respond promptly to such changes. If the Group or any of the JVs fail to anticipate and respond promptly to these changes, the Group's financial results may be adversely affected.

On the other hand, if the Group or any of the JVs fails to anticipate increased consumer demand for their products, each of them may experience inventory shortages and loss of sales opportunities, which may have an adverse impact on the financial results of the Group.

The Group may be forced to relocate some of its retail outlets in Mainland China

As at 30 September 2009, 24 of the Group's leases in respect of its properties in Mainland China had not been registered as required by applicable PRC regulations. 15 out of the 24 unregistered leases are used as retail stores, which represents approximately 4.2% of the Group's total number of leases in Greater China for retail use. The Directors do not believe that the failure of registration alone will affect the validity or performance of these leases. Although the Group is not in a position to effect the required registrations under the applicable PRC regulations, it has requested the landlords to complete such registrations. If the required registrations are not effected, the Group may be required to relocate these retail outlets. Refer to the section headed "Business — Property Interest" in this document for further details. In addition, if there is any dispute as to the legal title of any of such leased properties and/or if the Group's right to occupy the properties comes into question, the Group may have to seek alternative premises for such retail stores. In the event that the Group is forced to relocate its retail stores and is not able to identify alternative properties which are comparable in size and location, the Group's business and financial condition may be adversely affected.

The Group and the JVs may be affected by intellectual property rights infringement

Trade marks of the Brands have been registered or applications have been made for their registration in the markets in which the Group and the JVs operate. Apart from the trade marks of the Brands licensed to the Group and the JVs, the Brand Owners and/or their agents have also registered or applied for registration of additional trade marks of such Brands in the relevant jurisdictions. For details of the registered trade marks or trade marks for which applications for registration have been made which are material in relation to the Group's business, see the section headed "Statutory and General Information — B. Further Information About the Business — 2. Intellectual Property Rights" in Appendix VI to this document. The Group cannot guarantee that the trade mark applications will eventually mature to registrations. There is also no assurance that the trade mark registrations relating to the Brands will not be challenged, revoked or invalidated for any reason.

Although the registration of trade marks and other intellectual property rights relating to the Brands affords a legally recognised right to exclusive use by the proprietors or their licensees, the act of registration itself will not be able to prevent third parties from making imitation or counterfeit products of the Brands. Such imitations or counterfeits may result in an erosion of goodwill and loss of consumer confidence in the Brands, which would have an adverse effect on the sales of the Group's products.

Parallel imports may adversely affect the Group's sales

Although the Group and the JVs have the right to, amongst other things, manufacture and retail the products of the Brands in the relevant countries, they are not able to prevent parallel importers from selling products of the same Brands. As parallel imported products may be sold at a discount to the products sold at the retail stores of the Group and the JVs, the sales of the Group and the JVs may be adversely affected. Parallel importers therefore pose a competitive threat to the business of the Group and the JVs and any increase in their activities in the future may have an adverse impact on the sales of the products of the Group and the JVs.

The Group is heavily dependent on its key executives and personnel

The future success of the Group will depend to a large extent on the continued efforts of the Directors and senior management of the Group as a whole. There is no assurance that these key executives or personnel will not voluntarily terminate their employment with the Group. Although the Group does not rely on any one particular Director or senior management staff of the Group, the loss of any of the Group's key executives or personnel could be detrimental to the ongoing success of the Group's operations.

The Group's continued success will also depend on its ability to attract and retain qualified personnel in order to manage its existing operations as well as its future growth. The Group may not be able to successfully attract, assimilate or retain the personnel they need and this could negatively impact the Group's ability to expand their business effectively.

Inventory of the Group may become obsolete

The average inventory turnover days for the Core Business were approximately 107 days, 379 days, 417 days and 443 days for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. The increases in turnover days were due to a combination of the expansion in the retail network and the global financial turmoil during the period. In the event of another economic downturn, market demand for the products of the Group may fall below management expectations and could cause an accumulation of inventory, which may eventually lead to inventory write-offs that could adversely affect the Group's financial results.

The Group is responsive to seasonal and swift changes in consumer demand, and therefore has no rigid inventory control policy or pre-set inventory level. Products within the current season will generally continue to be sold in the retail stores of the Group. The Group classifies its products as past season products when their designs become outdated and no longer reflect the trend and style of the current season. Such past season products will then generally be moved to the Group's factory outlets and may become obsolete over time. Refer to the section headed "Business — Sales and Distribution — Retail — Factory Outlets" in this document for further details. The gross inventory balance of the Core Business as at 31 December 2006, 2007 and 2008, and 30 June 2009 was approximately HK$210.8 million, HK$443.0 million, HK$584.0 million and HK$524.8 million, respectively. The provision for inventory in respect of the Core Business as at 31 December 2006, 2007 and 2008, and 30 June 2009 was approximately HK$17.6 million, HK$24.6 million, HK$46.4 million and HK$42.3 million, respectively. The subsequent sales of the inventory of the Core Business as at 30 June 2009 during the period from 1 July 2009 to 30 September 2009 was approximately HK$66.1 million.

A labour shortage or an increase in labour cost may expose the Group to an increase in its cost of production

If there is a shortage of labour or for any reason the labour cost in Mainland China, Hong Kong or any other country in which the Group's products are manufactured rises significantly, the cost of production of the Group's products is likely to increase. This may in turn affect the selling prices of the Group's products, which may then affect the demand of such products and thereby adversely affect the Group's sales and financial condition. Increase in costs of other components required for production of the Group's products may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce its costs of production. Furthermore, the Group may not be able to pass on the increased cost to consumers by increasing the selling prices of its products in light of competitive pressure in the markets where it operates. In such circumstances, the Group's profit margin may decrease and its financial results may be adversely affected.

The Group's suppliers may be affected by government regulations in the countries where they operate

As the Group sources a large volume of its products from third-party manufacturers and outsources the production of its product parts to external suppliers, the Group is able to benefit from economies of scale in terms of obtaining competitive prices which results in cheaper production costs. These suppliers may be subject to government regulations in the countries in which they operate. Any change to the relevant government regulations or policies, whether relating to labour safety, tax treatment, environmental protection or any other aspects, may directly affect the operating costs of these suppliers. This may in turn increase the costs of their products or other fees charged to the Group. In such circumstances, the costs of sales of the Group may increase, thereby adversely affecting the Group's profitability and financial results.

The Group may not be able to source quality raw materials in a timely and cost-effective manner

The Group depends on external suppliers for all of the raw materials and product parts for the production of its products. For instance, fabric, being the primary raw material, as well as other components, are imported from overseas countries. The Group must be able to source quality raw materials at acceptable prices and in a timely manner. If the Group is unable to do so, the production schedule of the Group's products may be adversely affected. If the Group is unable to source quality raw materials in a timely and cost-effective manner, the Group's sales, business and trading position, as well as its financial results and condition may be adversely affected.

The Group may experience interruptions to its supply of raw materials, product parts, accessories and other materials required for production

The Group must obtain sufficient quantities of quality raw materials, including fabrics, linings, zippers and buttons, from its suppliers in order to maintain its normal operations. During the year ended 31 December 2008 and the six months ended 30 June 2009, the Group imported a majority of its raw materials from Europe.

If the Group is unable to obtain the raw materials from these suppliers for any reason, the Group may have to incur additional costs in order to source the raw materials from alternative suppliers in order to avoid any interruption to the production schedule. There is no assurance that the Group will be able to contract suitable alternative suppliers in a timely manner and this could result in a delay in the Group's production schedule, which may adversely affect the Group's profitability.

The Group is dependent on Lever Style for a significant portion of the Group's supplies

Currently, the Group completely outsources the production of product parts to Lever Style which are subsequently assembled at the Group's critical assembly and finishing facilities in Hong Kong. The Group also purchases finished apparel products, such as men's shirts, from Lever Style. Through these arrangements, the Group benefits from economies of scale in terms of cheaper production costs and quality control with respect to its products. The Group's purchases from Lever Style accounted for approximately 8.4% and 10.8% of the Group's total purchases for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Notwithstanding the fact that Lever Style is a company in which Fung Trinity Holdings holds 25% of its issued ordinary shares, there is no assurance that the Group's arrangements with Lever Style will continue in the future or that the Group will be able to continue obtaining product parts from Lever Style in a timely manner or at competitive prices in the future. In the event that the arrangements with Lever Style are terminated, the Group may not be able to find an alternative supplier promptly, which may result in delays in the production schedule and could adversely affect the Group's business, operations and its financial results.

The Group may be exposed to product liability claims

The laws of the countries in which the Group operates do not require the maintenance of product liability insurance for their business operations. The Group therefore does not have product liability insurance.

If the Group is found liable for any product liability claim, it may be required to pay substantial damages. Even if the Group is successful in defending such a claim, the Group may have incurred substantial financial and other resources in defending such a claim. In such circumstances, the Group's financial results will be adversely affected. Depending on the outcome of any such claims, the reputation of the Brands could also be adversely affected.

The Group and the JVs are exposed to exchange rate fluctuations

The main raw materials purchased by the Group and the JVs are high quality fabric and components which are mainly imported from Europe. In addition, the Group and the JVs also source finished products and accessories from third-party manufacturers or other licensees of the licensed Brands or the relevant Brand Owners that are located in other countries from time to time. The cost of sales of the Group could therefore be adversely affected by fluctuations in the relevant exchange rates. For the year ended 31 December 2008, the percentage of the Group's settlement in Euro, GBP, HK$, RMB, Yen and US$ were approximately 28.5%, 2.6%, 30.3%, 7.6%, 9.4% and 20.2%, respectively, for the Core Business. For the six months ended 30 June 2009, the percentage of the Group's settlement in Euro, GBP, HK$, RMB, Yen and US$ were approximately 21.6%, 1.5%, 33.7%, 13.0%, 12.6% and 16.8%, respectively, for the Core Business. If there is an appreciation in Euros, GBP or Yen against Hong Kong dollars, it will likely lead to an increase in the costs of primary raw materials used by the Group and consequently, the Group's cost of sales. This may in turn adversely affect the financial results of the Group and the JVs.

In addition, the majority of the Group's share of profit of jointly controlled entities were derived from its joint venture with Salvatore Ferragamo in South Korea, where the operating currency is primarily denominated in Korean Won. A depreciation in the Korean Won would therefore affect the results of the Group and the JVs as the Group's reporting currency is in Hong Kong dollars, resulting in translation losses. During the second half of 2008 and the first half of 2009, the Korean Won fluctuated from a low of HK$1.00 to KRW196.08 to a high of HK$1.00 to KRW129.87.

The Group may not successfully integrate newly acquired or licensed brands and/or businesses into its business model

The Group may acquire or obtain the licence to operate additional brands to expand its brand portfolio in the future. The ability of the Group to achieve such expansion depends on its ability to identify the appropriate additional brands and to initiate, negotiate and complete the acquisition of or obtain the licence for such brands.

The Group may experience difficulties in integrating the newly acquired or licensed brands or businesses into its existing business model and in retaining the key personnel to manage such acquired or licensed brands or businesses. In addition, the cost and duration of integration could also exceed the Group's original estimation. Any of these factors could adversely affect the Group's business, operations and its financial results.

The business operations of the Group and the JVs depend on the proper performance of the Group's and the JVs' information systems

The business operations of the Group and the JVs depend on the proper performance of the Group's and the JVs' information systems. The Group's management information systems are supported by a back-up server which can take over from the master server in the event of a system failure. There is however no assurance that such systems will always operate without any interruption or problem. Any malfunction of the systems for an extended period of time may adversely affect the smooth operation of the business of the Group or the JVs (as the case may be). This may in turn adversely affect the operations and financial results of the Group.

In addition, in order to further strengthen the Group's management information systems, the Group implemented a distribution and warehouse management system in July 2008 and a procurement information system in July 2009. The Group's business operations may experience interruptions arising out of the implementation of such systems, which may adversely affect the Group's business. There is also a risk that the new information systems will not be compatible with the Group's existing management information systems or that the Group will be unable to successfully integrate such systems, which may adversely affect the Group's business operations and financial results.

A decline in the popularity of the brands owned by or licensed to the Group or the JVs outside their operating markets may adversely impact the Group's sales

The Group and the JVs currently have the right to, amongst other things, manufacture and/or market products of their self-owned or licensed brands in Mainland China, Hong Kong, Macau, Taiwan, South Korea and certain Southeast Asian countries. The manufacturing and/or sales of products of such brands in countries or regions other than the above are managed by the relevant brand owners or their other licensees. Therefore, the Group and the JVs are not able to control or influence the development or management of these brands anywhere other than in the markets where they operate.

In the event that the popularity of these brands should decline for any reason in markets outside the above countries or regions or there is a loss of goodwill relating to the reputation of such brands, the image of the brands in the markets where the Group and the JVs operate may also be adversely affected. This may in turn adversely affect the Group's operations as well as its financial results.

Poor management by the owners or licensees of the brands licensed to the Group or the JVs in the relevant countries may result in a loss of goodwill in the licensed brands

In countries where the Group and the JVs operate, the brand owners who licensed their brands to the Group or the JVs may have also licensed other third party licensees (the "Third Party Licensees") to manage (which includes manufacturing and retailing) certain additional product categories for their respective brands, such as the range of ladieswear and accessories (the "Third Party Products"). As the Group and the JVs are not able to control or influence the Third Party Licensees, there is no guarantee that the Third Party Products will be of a standard or quality that is representative of the brands' image.

In the event that the retail stores of the Third Party Licensees are managed poorly and/or the Third Party Products are of an inferior quality, the relevant brands may suffer from a loss of goodwill which in turn could adversely affect the sales of the Group and the JVs as their products are also sold under the same brands.

The Group's interests in the JVs may be diluted in the event of a change of control in the Company, Ferrinch (L) and/or L&F Branded Lifestyle

The joint venture contract relating to Ferragamo Korea Ltd. provides that if (a) LF (1937) ceases to be entitled to exercise or control the exercise of 30% or more of the voting powers at general meetings of the Company; or (b) the Company ceases to hold, through its wholly owned subsidiary, a 100% interest in Ferrinch (L), the joint venture partner from Salvatore Ferragamo (the "JV Partner") shall have the option to require the Group to sell a percentage of its shareholding in Ferragamo Korea Ltd. to the JV Partner, which will result in the JV Partner holding not more than a 70% shareholding in Ferragamo Korea Ltd.

The joint venture contract relating to Ferragamo (Malaysia) Sdn. Bhd., Ferragamo (Thailand) Limited and Ferragamo (Singapore) Pte. Ltd. also provides that if (a) LF (1937) ceases to be entitled to exercise or control the exercise of 30% or more of the voting powers at general meetings of the Company; or (b) the Company ceases to hold, through its wholly owned subsidiary, a 100% interest in L&F Branded Lifestyle, the JV Partner shall have an option to require the Group to sell a percentage of its shareholding in each of the above joint ventures to the JV Partner, which will result in the JV Partner holding not more than a 70% shareholding in each of such joint ventures.

The Group's share of profits from the JVs for the three years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK$32.6 million, HK$40.7 million, HK$42.3 million and HK$12.9 million, respectively. In the event that any change of control as mentioned above occurs and the JV Partner exercises its right under the relevant option, the Group's interests in the JVs will be diluted and the Group's financial results may be adversely affected.

The historical dividends of the Group should not be treated as indicative of the future dividend policy of the Group

The Group declared dividends of approximately HK$20.8 million, nil and HK$57.8 million for the years ended 31 December 2006, 31 December 2007 and 31 December 2008, respectively, which were subsequently paid. All dividends declared and paid were funded by internally generated cash flow.

The amount of dividends which the Group may declare in the future will be subject to, amongst other things, the discretion of the Directors. It will also depend on the future operations, profitability, capital requirement and surplus as well as the general financial condition and any other factors which the Directors may consider to be relevant. Therefore, the historical dividend distributions of the Group are not indicative of the future dividend distribution policy of the Group.

The Group may not be able to secure future financing

From time to time, the Group may require additional funds depending on its business performance, market conditions and other factors which are beyond the control and anticipation of the Group's management. Extra funding may also be needed for store expansion or renovation, to acquire or license new businesses, or to strengthen the dedicated team for each brand owned or licensed to the Group as well as the centralised back-end office support. The tightening of credit which resulted from the recent economic downturn may increase the interest expenses on the Group's bank borrowings and create difficulties for the Group to renew its existing banking facilities and/or obtain additional sources of debt financing, which may affect the amount of banking facilities available to the Group. The lenders may withdraw facilities, request for early payment of outstanding loans or increases in the amount of pledges for secured borrowings. Further, if the Group requires additional debt financing, the lenders may require the Group to agree on restrictive covenants that could limit the Group's flexibility in conducting future business activities. If the Group is unable to secure external financing on acceptable terms to meet its operational and expansion needs, its business and trading position, as well as its financial results and conditions may be adversely affected.

As at 31 August 2009, the total borrowings of the Group was approximately HK$1,108.4 million.

A change in the tax policies of the countries in which the Group or the JVs operate could reduce the Group's profitability

In the event of any unfavourable changes in the tax policies or regulations in jurisdictions where the Group and/or the JVs operate, the profitability and financial results of the Group may be adversely affected.

The interests of the controlling shareholders of the Company may not always coincide with the interests of the Company and the other shareholders

Immediately following the completion of the [●], assuming the [●] is not exercised, King Lun Holdings Limited will indirectly hold approximately 43.08% of the issued share capital of the Company and will be the controlling shareholder of the Company. King Lun Holdings Limited is owned as to 50% by a trust established for the benefit of the family members of Dr. Victor Fung Kwok King and as to 50% by Dr. William Fung Kwok Lun. In light of the foregoing, King Lun Holdings Limited is in a position to control matters requiring approval by Shareholders and are therefore able to exercise significant influence over the operations and strategies of the Company. There is no assurance that their interests will always be aligned with the interests of the other Shareholders.

RISKS RELATING TO THE INDUSTRY

There may be a prolonged economic downturn attributable to the global financial turmoil in the countries in which the Group and the JVs operate

A number of stores of the Core Business suffered a loss during the global financial turmoil, which caused the Group to slow the pace of its store opening plan in the first six months of 2009. Global economic downturn, such as that observed in the second half of 2008 and first half of 2009 as triggered by the global financial crisis, had adversely impacted the gross margins, operating margins and net margins of the Core Business for the year ended 31 December 2008 and for the six months ended 30 June 2009. Under a prolonged economic downturn, the Group may have to offer deeper discounts or discounts for longer periods than usual, which could adversely impact margins.

In addition, a prolonged economic downturn could impact the Group's revenue growth in a number of ways, including a slowdown in business activities, decline in consumer confidence and changes to consumer spending patterns. This is particularly so as fashion items are generally considered discretionary consumption items and the fashion apparel industry is very sensitive to changes in the economy.

The Group and the JVs may be subject to intense competition

The apparel and menswear industries are competitive. The Group and the JVs face competition from both international and domestic brands. Some of the competitors of the Group or the JVs may have greater financial, marketing, management and other resources than the Group or the JVs. The Group's financial results could be adversely affected by factors including entry by new competitors into the Group's current markets, expansion by existing competitors and better marketing/advertising leading to stronger brand equity for the competitors.

There is no assurance that the Group's strategies will remain competitive or that it will continue to be successful in the future. Increased competition could result in a loss of market share for the Group or the JVs. In particular, if the competitors of the Group or the JVs adopt aggressive pricing policies, the Group and the JVs may be forced to adjust the pricing of their products to level their competitiveness. This could adversely affect the Group's profitability and its financial results.

The Group's sales volume is sensitive to seasonality effects and weather patterns

The performance of the Group's retail stores is subject to seasonal fluctuations. Sales amounts therefore vary throughout the year and the Group's peak season is generally between the months of

October and February, as reflected by the Group's operating results in 2007 and 2008. Extreme changes in weather patterns could also affect consumers' purchasing behaviour, which may lead to fluctuations in the Group's sales revenue.

The business of the Group and the JVs may be affected by outbreaks and recurrence of epidemics, natural disasters, acts of war, terrorist acts, political unrest and other events which are beyond the control of the Group and the JVs

Certain countries in Asia have experienced epidemics such as SARS, avian influenza and natural disasters such as fire, floods, blizzards and earthquakes, which have had an adverse impact on the economies of Mainland China and other parts of Asia. A global outbreak of a new strain of influenza virus, the H1N1, which was declared a pandemic in June 2009 by the World Health Organisation, is also affecting many countries worldwide.

So far as the Company is aware: (i) none of the Group's employees for the Core Business were injured as a result of the earthquake in Wenchuan County, Sichuan Province in 2008 (the "Earthquake") and there are no potential claims by such employees against the Group as a result of the Earthquake; and (ii) a total of 16 retail stores in Sichuan for the Core Business were temporarily closed at the request of the local government. There was no damage to these retail stores as a result of the Earthquake and in any event, these retail stores are insured against any such damage. There was no material adverse impact on the Group's financial position, and business operations and prospects as a result of the Earthquake.

Where there is an outbreak or a recurrence of epidemics or natural disaster in any country or a further spread or mutation of the H1N1 leading to a more severe H1N1 outbreak across the globe, acts of war, terrorist acts, political unrest and other events which are beyond the control of the Group and the JVs, this could result in disruption to the business of the Group and the JVs, which could in turn adversely affect the Group's operations and financial results.

RISKS RELATING TO THE PRC

A power shortage may disrupt the Group's business

Certain cities in Mainland China have experienced power shortages in the past or have been subject to restrictions in its consumption of electricity. An extended interruption in the power supply may affect the operations of the Group's retail stores and result in a decrease in sales revenue. A power shortage could also affect the production schedule of the Group's suppliers in Mainland China, which may cause a delay in the Group's production schedule leading to an incurrence of unnecessary costs.

The Group may be subject to translation loss in case of devaluation of the Renminbi

Given the Group's sizeable operations in Mainland China, the Group derives a significant portion of its revenue in Renminbi and holds a significant amount of Renminbi-denominated assets. Since the functional currency and reporting currency of the Group is Hong Kong dollars, a foreign exchange gain or loss will arise from the translation of the Group's Renminbi-denominated transactions and assets into Hong Kong dollars where there is any change in the exchange rate between these two currencies. If the Renminbi depreciates against the Hong Kong dollar, the Group will incur a foreign exchange loss in such translation, which will adversely affect the Group's financial results.

In addition, any decrease in the value of the Renminbi against the Hong Kong dollar would also adversely affect the amount of dividends payable in Renminbi to the Company from its PRC subsidiaries, which will subsequently be translated into Hong Kong dollars. This will in turn adversely affect the Company's ability to pay dividends to Shareholders.

Changes in the PRC foreign exchange regulations may affect the Group

A substantial portion of the Group's total revenue is derived in Mainland China and is denominated in Renminbi. Under the existing foreign exchange regulations in the PRC, the Group may make payments of current account items, including profit distributions and expenditures from trade related transactions, in foreign currencies without prior approval from the PRC State Administration for Foreign Exchange upon compliance with certain procedural requirements. Despite the PRC Government's public statement that it intends to make the Renminbi freely convertible in the future, there is no assurance that such intention will materialise.

If the PRC Government imposes additional restrictions on the conversion of the Renminbi to foreign currencies, the Group may have difficulties remitting the profits generated from its operations in Mainland China to Hong Kong, which may in turn adversely affect the Group's ability to pay dividends to Shareholders in Hong Kong dollars or other foreign currencies.

Changes in the PRC political, economic and social conditions, laws, regulations and policies may adversely affect the Group's operations

The economy of Mainland China differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The economy of Mainland China has been transitioning from a planned economy to a more market oriented economy. In the past two decades, the PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of Mainland China. In addition, the PRC Government continues to play a significant role in regulating industries by imposing industrial policies.

The Group is unable to predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, financial results or financial condition.