RISK FACTORS

You should consider carefully all of the information set out in this document and, in particular, should evaluate the following risks in connection with an investment in the Group, certain of which are not typically associated with investing in equity securities of companies located predominantly in Hong Kong or other economically advanced jurisdiction.

You should pay particular attention to the fact that the Company is incorporated in the Cayman Islands and that most of the Group's operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. The Group's business, financial condition or results of operations could be affected materially and adversely by any of these risks. Additional risks not currently known to the Company or that the Company now deems immaterial may also harm the Group and affect your investment.

The Directors believe that there are certain risks involved in the Group's operations. They can be broadly categorised into: (i) risks relating to the Group; (ii) risks relating to the industrial automation instrument industry, (iii) risks relating to the horological instrument industry, (iv) risks relating to the PRC; and (v) risks relating to the [●].

The Group did not provide any financial support in any form to relevant professional bodies for the preparation of the reports being used in this section. The Directors believe the reports are prepared in accordance with the statistics obtained from various governmental official publicly available sources and the surveys conducted by relevant professional bodies.

RISKS RELATING TO THE GROUP

The Group may encounter unexpected difficulties when expanding its business in the future.

The Group plans to continue to expand its business in the future by, among other things, increasing the number of products it offers and by expanding the type of customers and geographical locations that it serves, both domestically in China as well as internationally. However, any expansion may require managerial, technical, financial, production, operational and other resources, systematic internal control systems, the employment of additional skilled personnel, and would also require the Group to obtain new customers, suppliers, equipment vendors and to establish business relationships with other third parties. As a result, there can be no assurance that the Group will be able to expand its operations effectively in the future and failure to do so may adversely affect the Group's operations and financial results, as it will have devoted substantial financial resources (in the form of capital expenditures) and human resources (in the form of management time and expenses associated with hiring more employees) toward any such failed expansion.

The construction and installation of the Group's new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, it may not be able to implement its future plans for expansion.

In the future, the Group intends to increase its production volume, particularly with respect to high precision industrial automation instrument and technology products, by constructing new facilities and by purchasing additional equipment. Any technical difficulties, human, funding or other resource constraints, or other difficulties, could materially and adversely affect the schedule for the construction of these production facilities and the costs of implementing such projects, which may exceed the budgets contemplated by the Group. If the construction timetables or delivery schedules for machinery are delayed, or if the commencement of commercial operations at production lines in the new facilities is postponed, or if the Group is unable to recruit a sufficient number of skilled or experienced personnel in connection with any such expansion, the Group may not be able to implement its expansion plans within the original timeframe or within the original budgeted cost, either or both of which may in turn impact its business operations and financial results.

The Group is dependent upon a small number of key suppliers from whom it purchases a significant majority of its raw materials.

The Group's purchases from its top five suppliers during the Track Record Period accounted for approximately 80.6%, [76.8%] and [72.8]% of the Group's total purchases from all outside suppliers. The Group has not entered into any long term purchase agreement with any of its key suppliers. There is no assurance that these suppliers will continue to supply the Group with raw materials in the future at all or maintain a stable source of supply. If these suppliers were unable or unwilling to do so, there is also no assurance that the Group would be able to source raw materials from alternative sources at all, or at commercially reasonable prices, or in a timely manner.

The Group is dependent upon timely delivery by its suppliers of certain parts, components and services that meet quality standards set by the Group to manufacture its products.

The Group purchases non-key and non-technologically-advanced parts and components from its suppliers to achieve greater cost efficiency and increase production capacity. In the production of high precision industrial automation instrument and technology products, sensor components (K1系列傳感器) are purchased from the Group's suppliers. Please refer to the section headed "Business — Raw Materials" for more information on the supply arrangements between the Group and its suppliers. By sourcing these and other components from third party suppliers, the Group has less control over manufacturing yields, quality assurance and product delivery schedules. The Group's suppliers may not have sufficient capacity to meet the Group's needs in a timely manner and in accordance with the Group's quality standards. The Group cannot assure investors that it will not encounter problems with its suppliers in the future, or that the Group will be able to replace unsatisfactory suppliers. Shortages or delays in the supply of parts, components or other materials from its suppliers may adversely affect the Group's business operations or its financial results.

The Group is heavily dependent on its key executives and personnel, hiring and retaining a highly qualified workforce.

The Directors believe that to a significant extent, the Group's business operation is dependent, among other things, upon the technical know-how and managerial experience of the Group's key management team (details about whom are included in the section headed "Directors, senior management and staff" in this document) and the technical expertise of the Group's research and development team. Although each of the key technical and management and research and development personnel has entered into a service agreement with the Group for a fixed term, competition for professional employees is intense, and there is no assurance that they will remain employed with the Group. If any such members of management or technical personnel were to leave the Group, and if the Group fails to find immediate and adequate replacements or if the Group is unable to further recruit competent successors or competent personnel in connection with its future growth, the Group's future plans, the implementation of the Group's business strategies and its current business operations may be harmed.

The Group's operating results may fluctuate.

The Group's operating results may fluctuate significantly depending on all or any of the following principal factors, among others:

- changes in demand for its products and services;
- its customers' sales outlook, purchasing and production patterns and inventory adjustments;
- the effectiveness with which the Group manages its manufacturing processes, controls its costs and integrates potential future acquisitions;
- the Group's ability to make optimal use of its available manufacturing capacity;
- changes in the cost and availability of labour, raw materials and other inputs (such as electricity), which often occur in the manufacturing industry and affect the margins and ability of the Group to meet delivery schedules;
- the ability of the Group to manage the timing of its raw materials purchases, so that raw materials are available when needed for production, while avoiding the risks of accumulating excessive inventory;
- the Group's ability to obtain financing in a timely manner;
- local conditions and events that may affect the production volumes of the Group, such as labour conditions and political instability; and
- seasonal fluctuations in customer orders.

The Group's operating results may fluctuate from period to period due to the abovementioned factors and other risks discussed in this section, many of which are beyond the control of the Group. As a result, the Share price may be volatile and may not always accurately represent the longer-term value of the Group.

The Group does not have land use right certificate for a parcel of land in the PRC.

The Group does not have the land use right certificate for a parcel of land [that it has paid the land transfer fee for] with a site area of approximately 8,015.5 square metres which is located at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC. The Group intends to use the site for the construction of new manufacturing facilities. [As at the Latest Practicable Date], the Group has not yet obtained the land use right certificate for the site because the Mawei State Land and Resources Bureau (馬尾區國土資源局) has yet to hand over the site to the Group. The removal of production facilities, which are still occupied by Independent Third Parties, on the site is in progress and is expected to complete by the end of 2009. Hence, the Group could not take possession of the above site. It is expected that the Group will obtain the valid land use right certificate of the site after the removal.

The Group's occupation and use of such properties are subject to potential restrictions which may be out of the Group's control. Any requirement to cease using or relocating such properties may have an adverse effect on the Group's business or results of operation in the future.

The Group used not to make contributions to the housing fund.

According to the laws and regulations of the PRC, as part of employees' welfare and benefits, companies are required to make contributions to a government administered housing fund at a rate of no less than 5% of average monthly salaries paid to employees in the previous year. Fujian Wide Plus, however, used not to make contributions to the housing fund from its incorporation [until May 2008]. For details relating to the reason why Fujian Wide Plus did not make contributions to the housing fund, the potential penalties to which Fujian Wide Plus may be subject and the improvements in this aspect made by Fujian Wide Plus since May 2008 up to the [Latest Practicable Date], please refer to the sub-section headed "Regulatory Matters" of the section headed "Business" in this document.

The Group used not to obtain medical insurance coverage under the social insurance schemes for its employees.

The Group used not to obtain medical insurance coverage for its employees as required under the relevant PRC laws and regulations. For details relating to the reason why Fujian Wide Plus did not obtain medical insurance coverage under the social insurance schemes for its employees, the potential penalties to which Fujian Wide Plus may be subject and the improvements in this aspect made by Fujian Wide Plus since June 2008 up to the [Latest Practicable Date], please refer to the sub-section headed "Regulatory Matters" of the section headed "Business" in this document.

The Group may be adversely affected by the recent financial crisis and credit crunch.

The recent financial crisis and credit crunch have adversely affected the U.S. and the global economies. With a deteriorating global economy, demand for high precision industrial instrument and technology products and the horological products may be diminished, which in turn will affect the demand for the Group's products. In addition, the credit crunch may increase the interest expenses on the Group's bank borrowings, or cause banks to reduce the amount of or discontinue the banking facilities currently available to the Group. If the economic downturn continues, the Group's business operations may be adversely affected.

The Group is exposed to credit risks of its distributors.

The Group provides credit terms to its distributors based on its assessment of each distributor's financial condition. The Group's increased sales going forward may rely heavily on credit, and the Group may be unable to collect these trade receivable in full or at all. During the Track Record Period, the Group's trade receivable balance was approximately RMB138.6 million, RMB255.4 million and RMB258.0 million, respectively. The increase in the Group's trade receivable balance was a result of the increased sales of the Group during the Track Record Period and the extension of the credit period offered to the customers that have good credit histories and sales growth from 90 days to 120 days up to 150 days. The failure of these distributors to pay the Group in a timely manner will adversely affect the Group's business, financial condition and results of operations.

Any significant downtime in the Group's production facilities would adversely affect the Group's business.

The Group's business requires substantial investments in complex production facilities and the uninterrupted operation of specialized manufacturing equipment. Substantial damage to the Group's production facilities from extraordinary events, such as earthquakes, floods and fires, or resulting consequences and disruptions, could be costly and time-consuming to repair and may disrupt our production. Any disruption or delay in the Group's production may require the Group to incur additional expenses in order to produce sufficient inventory and could impair the Group's ability to meet the demand of customers and cause the Group's customers to cancel orders, any of which could negatively affect the Group's reputation and results of operations.

The Group has limited insurance coverage.

The insurance industry in China is in an early stage of development compared with countries such as the United States. Insurance companies in China offer limited commercial insurance products. According to the Directors, the Group did not have any product liability (for up till 5 April 2009) and the Group does not maintain any business interruption, or litigation insurance coverage for the Group's operations. Any uninsured loss or damage to property, litigation or business disruption may cause the Group to incur substantial costs and the diversion of resources, which could have a material adverse effect on our financial condition and results of operations. The occurrence of certain incidents including earthquake, fire, severe weather, war, floods, power outages and the consequences, damages and disruptions resulting from them may not be covered adequately or at all by the Group's insurance policies. If the Group was to incur substantial liabilities that are not covered by the Group's insurance policies or if the Group's business operations were interrupted for a substantial period of time, the Group could incur costs and losses that could materially and adversely affect the Group's business, financial condition, results of operations and business prospects.

The Group's manufacturing processes involve inherent risks and occupational hazards.

The Group's business operations, particularly the Group's manufacturing activities, involve risks and occupational hazards that are inherent to the manufacturing industry and which cannot be completely eliminated through preventive efforts. The Group cannot assure that accidents, which may result in property damage, severe personal injuries or even fatalities will not occur at our production facilities. The occurrence of any of the foregoing events may have an adverse effect on the Group's business, financial condition and results of operations.

Power shortages or substantial increase in energy costs could have an adverse impact on the Group's operations.

The Group consumes substantial amount of electricity in its production process. The Group's production schedules may be affected by power shortages and blackout periods as a result that the PRC Government imposes restrictions on the use of electricity due to power shortages, thereby disrupting our power supply, or if the Group is otherwise unable to obtain adequate supplies of electricity to meet its requirements, its production operations would be disrupted and its production and delivery schedules would be adversely affected. The Group cannot assure that it will be able to recover the substantial cost increases of energy by raising the prices of its products.

RISK FACTORS

RISKS RELATING TO THE INDUSTRIAL AUTOMATION INSTRUMENT INDUSTRY

General economic growth in the PRC is a key driver of the Group's business and financial results, in particular with regard to demand for its high precision industrial automation instrument and technology products. If economic growth in the PRC were to slow or stop in the future due to decrease of the PRC domestic demand or global financial crisis, the Group's business, turnover and profitability may be harmed.

During the Track Record Period, 86.7%, 86.5% and [89.9]% of the Group's total turnover was derived from sales in the PRC (other than Hong Kong) while the remainder was derived from sales in Hong Kong. Substantially all of its operations are also located in the PRC. As a result, economic growth in the PRC has a direct impact on virtually all aspects of the Group's operations, including the level of demand for its high precision industrial automation instrument and technology products and horological instruments, the availability and prices of raw materials, as well as the level of other expenses, including labour costs. With regard to expenses, notably the Group's unit labour costs have risen over the Track Record Period.

General economic growth in the PRC has a particularly acute impact on the demand for the Group's high precision industrial automation instrument and technology products, if economic growth in the PRC were to slow or stop in the future due to a decrease in domestic demand or the global financial crisis, demand for the Group's high precision industrial automation instrument and technology products may fall, which may result in lower unit sales and lower selling prices, or both. If economic growth slows, the Group's profitability may be harmed, as the segment gross profit margins for all of its products may fall.

For these reasons, if economic growth in the PRC were to slow or stop in the future due to a decrease of the PRC domestic demand or the global financial crisis, the Group's business, turnover and profitability may be harmed.

If international or Chinese competitors in the Group's high precision industrial automation instrument and technology products business were in the future to begin to manufacture and sell products in their unique niche in the Chinese market, the Group's business and profitability may be harmed.

The average selling prices of the Group's high precision industrial automation instrument and technology products remained, with a couple of exceptions, relatively stable over the Track Record Period, and the Group's segment gross profit margins on sales of its high precision industrial automation instrument and technology products were 49.3%, [50.3%] and [50.1]% during the Track Record Period.

The following table shows the average selling prices of the Group's high precision industrial automation instrument and technology products for the years indicated:

	Year ended 30 June		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Average selling price (unaudited)[(1)]			
Principal High precision industrial automation instrument and technology products			
Detectors	[1,843.92]	[1,921.20]	[2,059.38]
Indicators	[450.78]	[446.95]	[447.83]
Controllers	709.3	[732.71]	[786.66]

(1) Average selling price has been computed by dividing the turnover from sales of a particular product category in a given year by the units sold during that time.

If international or Chinese competitors in the Group's high precision industrial automation instrument and technology products business begin to manufacture and sell products in their niche, the Group's unit sales may be harmed or it may be forced to cut its prices. Since the turnover derived from sales of high precision industrial automation instrument and technology products represented 64.1%, 70.9% and [74.6]% of the Group's total turnover during the Track Record Period, if that were to happen, the Group's future business and profitability may be harmed.

Demand for and supply of the Group's high precision industrial automation instrument and technology products may be adversely affected by numerous factors, some of which the Group cannot predict or control, which could adversely affect its results of operations.

Numerous factors may affect the demand for and supply of the Group's high precision industrial automation instrument and technology products, including:

- changes in the market acceptance of its products;
- increased competition in the markets it serves;
- changes in economic conditions in individual markets;
- declines in the general level of industrial production; and
- declines in the availability or increases in the prices of raw materials.

If any of these factors occur, the demand for and supply of the Group's high precision industrial automation instrument and technology products may suffer, which may adversely affect its results of operations.

The raw materials used in the Group's production processes and by its suppliers of component parts are subject to price and supply fluctuations that may increase the Group's costs of sales and adversely affect the Group's results of operations.

The Group's supply of raw materials for its industrial automation instrument and technology products may be interrupted for a variety of reasons, including the availability and pricing of raw materials. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases may adversely affect the Group's results of operations and profit margins.

The Group's suppliers of component parts may significantly and quickly increase their prices in response to increases in costs of raw materials that they use to manufacture their component parts. In those circumstances, the Group may not be able to increase its prices commensurately with its increased costs. Consequently, its profitability, results of operations and financial condition may be materially and adversely affected.

If the Group is not able to pass onto its customers for its high precision industrial automation instrument and technology products any future increases in the costs of the raw materials used in the manufacture thereof, the Group's profitability and profit margins may be harmed.

The Group's direct materials costs related to the manufacture of its high precision industrial automation instrument and technology products was the largest component of the Group's cost of sales in each period of the Track Record Period. Direct materials costs related to the manufacture of high precision industrial automation instrument and technology products represented 56.8%, [62.8%] and [66.0]% of the Group's total cost of sales in each year of the Track Record Period.

There is no guarantee that the costs of these or other raw materials will remain stable in the future or that any increases in such prices will not lead to unexpected increases in the Group's production costs. There can be no assurance that in the future the Group will be able to increase the price of its products.

If the Group is unable to increase the prices it charges for its high precision industrial automation instrument and technology products to offset any such increases in the costs of the raw materials, or is unable to achieve comparable cost savings elsewhere, the Group's profitability and profit margins may be harmed.

Annual turnover derived from sales to the Group's five largest customers for its high precision industrial automation instrument and technology products represented approximately 58.1%, [37.7%] and [33.7]% of the Group's total turnover derived from sales of its high precision industrial automation instrument and technology products during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.

Sales to the Group's five largest customers for its high precision industrial automation instrument and technology products were responsible for approximately 58.1%, [37.7%] and [33.7]% of the Group's total turnover from sales of its high precision industrial automation instrument and technology products during the Track Record Period. These customers are each only the Group's top tier distributors for such products, however, the end-users of the Group's industrial automation instrument and technology products (to whom these products are sold through a chain of distributors) are numerous.

The Group does not enter into distributorship agreements with any of its distributors beyond one year term. If these distributors cease to cooperate with the Group in the future or substantially reduce the size of the orders that they place with the Group and the Group cannot find suitable replacement distributors in a timely manner, the Group may lose significant business. This concern relates in part to the fact that the Group is not always the primary point of contact at the point of sale or for after-sales services with any of the end-users of its high precision industrial automation instrument and technology products. The various distributors in its distribution chain are primarily responsible for providing customer service to the end-users to whom they sell the Group's products. Therefore, while end-users may choose the Group's products because of its "Wide Plus" brand and reputation the Group does not have direct relationship with these end-users that it would otherwise have if it were the primary contact at the point of sale or for after-sales services.

If the Group's relationships with any of its distributors become strained, their orders reduced or the Group's relationships therewith terminated entirely, there can be no assurance that the Group will be able to obtain new orders of a similar magnitude from other distributors or on commercially reasonable terms. If the Group is unable to do so, its revenues, profitability and cash-flow will be harmed.

The Group is dependent on the distributors of its high precision industrial automation instrument and technology products and has limited control over their subsequent re-sales to sub-distributors and end-users.

The Group does not sell its high precision industrial automation instrument and technology products directly to end-users. The Group derives all of its turnover from such sales to distributors who, directly or through other sub-distributors, re-sell the Group's high precision industrial automation instrument and technology products to end-users. To the best knowledge of the Directors, the distributors and sub-distributors are Independent Third Parties. None of the Group's distributors are obliged to work exclusively for the Group, subject to the condition that no distributor can sell an equivalent product produced by a competitor of the Group. [As at the Latest Practicable Date], the Group engaged [16] distributors for its high precision industrial automation instrument and technology products who operated directly or indirectly through over 300 sub-distributors.

Since the Group does not sell its high precision industrial automation instrument and technology products to end-users directly and since it has contractual relationships only with its distributors but not with its sub-distributors, the level of control the Group has over the re-sale of its products by its distributors and sub-distributors is limited. Therefore, there can be no assurance that the current distribution arrangements will be sufficient to maintain the level of sales achieved by the Group during the Track Record Period. Nor can there be any assurance of the quality of the services provided by its distributors and sub-distributors. The dependence placed on the distributors and sub-distributors by the Group exposes the Group to a number of risks, including the following:

- The distributors generally do not have contractual obligations to purchase minimum amounts of the Group's products;

- To broaden the pool of potential customers for the Group's high precision industrial automation instrument and technology products, the Group relies on these distributors and sub-distributors to expand their own distribution networks and there can be no assurance that any such expansion can be done in a timely manner or sufficient in scope to achieve any anticipated future growth in the Group's sales;

- The actions (or inaction) of these distributors and sub-distributors when interacting with the end-users of the Group's high precision industrial automation instrument and technology products, at either the point of sale or during after-sales services, could damage the Group's "Wide Plus" brand; and

- The Group generally enters into short-term, usually one year, distribution contracts with its distributors. There can be no assurance that such contracts will be renewed or renewed on terms that are acceptable to the Group.

Rapid changes in the industrial automation instrument industry may render the Group's industrial automation instrument products obsolete.

For each of the three financial years ended 30 June 2009, turnover derived by the Group from sales of its high precision industrial automation instrument and technology products accounted for 64.1%, 70.9% and [74.6]% of the Group's total turnover.

The industrial automation instrument industry caters to industrial customers in a broad array of businesses, whose own operations are undergoing rapid development. As a result, the industrial automation instrument industry is itself evolving and the technology incorporated in the manufacture of such products is constantly changing. If the Group cannot adapt to changes in customers' requirements or does not keep pace with new technological advancements in the industrial automation instrument industry, in the future the Group may not be able to produce the types of automation products demanded by customers or may be unable to produce them at commercially viable cost levels. Any such future inability to manufacture such new products or inability to manufacture them at commercially viable cost levels will result in a reduction in sales volume, thereby reducing the Group's market share, which will have an adverse effect on the turnover and profitability of the Group's industrial automation instrument and technology business.

The market in China for high precision industrial automation instrument and technology products has historically been dominated by foreign companies, some of whom have similar or even larger market shares and may have more substantial financial and other resources than the Group.

Historically, the market in China for large scale and high precision industrial automation instrument and technology products has been largely dominated by foreign companies. The Directors believe, several of its foreign competitors produce similar products that are technologically more advanced and higher in quality, which may put them in a better position to respond quickly to changing technology or customer needs. Any failure by the Group to anticipate or respond as quickly to any such changes may adversely affect the Group's business and financial performance. In addition, the competitors (particularly foreign ones), with greater financial and other resources than the Group, may as a result have a greater ability to respond to industry changes or to cut their prices to win market share in the future.

Some of the Group's end-markets are cyclical, which may cause it to experience fluctuations in turnover or operating results.

The Group may experience fluctuations in revenues and operating results due to economic and business cycles. The Group sells its high precision industrial automation instrument and technology products principally to various industries including the oil, gas, petrochemical, automotive, power, aerospace, and iron and steel markets. Although the Group serves a variety of industries to avoid a dependency on any one, a significant downturn in any one of these markets could cause a material reduction in the Group's revenues, which may not be offset by increased sales in another market.

If the Group fails to manufacture and deliver high quality products, it may lose customers.

Product quality and performance are priorities for the end-users of the industrial automation instrument and technology products. End-users require products that meet stringent performance standards. If the Group fails to maintain and enforce quality control and testing procedures, its products may not meet these stringent performance and safety standards. Substandard products may seriously harm its reputation and its "Wide Plus" brand, resulting in both a loss of current customers and damage its ability to attract new customers, which may have material adverse effect on the Group's business, financial condition or results of operations.

The costs of complying with existing or future environmental regulations, and rectifying any violations of these regulations may increase the Group's expenses or reduce its profitability.

The Group's high precision industrial automation instrument and technology products are subject to a variety of environmental laws. The Group cannot predict the nature, scope or effect of future regulatory requirements to which its operations might be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations may be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations may be significant.

Violations of these requirements may result in financial penalties and other enforcement actions. The Group also may be required to halt one or more portions of its operations until a violation is rectified. The costs of rectifying violations or resolving enforcement actions that might be initiated by government authorities may be substantial.

The costs of complying with existing or future governmental regulations on importing and exporting practices, and of rectifying any violations of these regulations, may increase the Group's expenses, reduce its revenues or profitability.

The Group is subject to a variety of laws and international trade practices. It cannot predict the nature, scope or effect of future regulatory requirements to which its international trading practices might be subject or the manner in which existing laws might be administered or interpreted. Future regulations may limit the countries into which certain of its high precision industrial automation instrument and technology products may be sold or may restrict its access to and increase the cost of obtaining products from foreign sources. In addition, actual or alleged violations of such regulations may result in enforcement actions or financial penalties, or both, which may result in substantial costs.

The Group's future research, design and development activities may not yield the expected benefits.

The Group has invested into the designs and technologies it has developed for the manufacture of its products. The Group continued success depends on its ability to maintain its commitment to research, design and development efforts. For the three financial years ended 30 June 2009, the Group expended approximately RMB1.7 million, RMB3.3 million and RMB[7.2] million, respectively, on research, design and development activities, or approximately 0.35%, 0.55% and [1.17]%, respectively, of the Group's total turnover during those years, respectively.

The future research, design and development activities carried on by the Group may not be successful or yield the anticipated benefits. Even if such activities are successful, the Group may not be able to apply the new technologies to products that are accepted by the market or apply them in a timely manner to take advantage of the market opportunities present. Market demand that was expected at the beginning of the Group's lengthy research and development cycle may not materialise and the benefits that can be derived from newly developed technologies or products may be affected by how quickly competitors can replicate such technologies or products. Furthermore, the technologies or products the Group developed may be made obsolete by new products, newer models of existing products or new technologies developed by its competitors. In the event that technologies or products the Group developed are replicated, replaced or made redundant in a manner which is not anticipated by the Group, its revenues may not offset the costs incurred for developing the new technologies or products, which may have a material adverse effect on the Group's business and financial performance.

The Group may be subject to product liability claims.

[The Group did not have product liability insurance for its high precision industrial automation instrument and technology products before 5 April 2009. Any malfunction in, or inadequate design of, the high precision industrial automation instrument and technology products that the Group manufactured and sold before 5 April 2009 may result in product liability claims being brought against the Group.]

[Any product liability claims made against the Group may involve allegations of personal injury or property damage, or claims for any financial losses arising from interruption of operations as a result of any consequent property damage. As the Group supplies its high precision industrial automation instrument and technology products to customers in a wide range of industries, large product liability judgements against the Group may be ordered. Generally, if the Group's high precision industrial automation instrument and technology products are defective, the risk is that the end user may significantly damage their facilities into which these products were incorporated. Apart from the significant adverse impact product liability claims may have on the operating results and financial condition of the Group, such liability claims may also adversely affect the market reputation of the Group and its "Wide Plus" brand, which may result in a decline in demand for its products.]

RISK FACTORS

RISKS RELATING TO THE HOROLOGICAL INSTRUMENT INDUSTRY

If average selling prices of the Group's plastic quartz watch movements continue to decline, the Group's profitability may be harmed.

The average selling prices of the Group's plastic watch movements have fallen over the Track Record Period because the Group reduced its selling prices to increase market share in an intensely price competitive environment. The Directors believe that the fall of the average selling prices of the Group's plastic watch movements during the Track Record Period was due to the consequence of a price decrease in similar products, internationally and in the PRC market.

The following table shows the average selling prices of the Group's horological instruments for the years indicated:

	Year ended 30 June		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Average selling price (unaudited)[1]			
Horological instruments	2.62	[2.06]	[1.85]

(1) Average selling price has been computed by dividing the turnover from sales of a particular product category in a given year by the units sold during that time.

In recent years, several international watch makers have moved away from, or reduced their focus on, the lower-end quartz watch movements due to declining prices. To the Group's knowledge, these changes in the market have left only five significant manufacturers of low-end quartz watch movements: two Japanese and three Chinese, including the Group.

Turnover from sales of horological instruments represented approximately 35.9%, 29.1% and [25.4]% of the Group's total turnover for the three financial years ended 30 June 2009, respectively, while segment gross profit margins on those sales were approximately 41.0%, [39.3%] and [38.4]% during those same years, respectively. If average selling prices of the Group's horological instruments continue to decline in the future, its segment gross profit margins on sales thereof may continue to fall. If that were to happen, the Group's profitability may be harmed.

If the Group is unable to negotiate with certain of its suppliers related to its horological instrument business to continue to lower their prices, the Group's future profitability may be harmed if its average selling prices continue to decrease.

For each of the years during the Track Record Period, the Group's segment gross profit margins on its sales of horological instruments were approximately 41.0%, [39.3%] and [38.4]%, respectively. While those segment gross profit margins for the Group's horological instruments have fallen during the Track Record Period (in significant part due to decreasing average selling prices therefor), its segment gross profit margins might have fallen more precipitously during that time had the Group not successfully negotiated for reductions in its direct materials costs.

The Group's direct materials costs related to horological instruments were particularly important because they were among the largest single expenses that made up the Group's cost of sales during the Track Record Period.

If average selling prices of the Group's horological instruments continue to decline in the future and the Group is unable to successfully negotiate with its suppliers to further cut their prices or maintain currently reduced prices, the Group's segment gross profit margins on sales of horological instruments may continue to fall. If that were to happen, the Group's profitability may be harmed.

Sales to the Group's five largest customers of horological instruments in aggregate represented approximately 89.6%, [86.9%] and [96.3]% of the Group's total sales of horological instruments during the track record period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.

Sales to the Group's five largest customers of horological instruments in aggregate accounted for approximately 89.6%, [86.9%] and [96.3]% of the Group's total turnover of horological instruments during the Track Record Period.

As a result, if the Group were to lose its distributors or if orders from any such distributors were reduced materially, the Group may have difficulties in replacing such lost orders.

If any of the Group's distributor relationships become strained, their orders reduced or the Group's relationships therewith terminated entirely, there can be no assurance that the Group will be able to obtain comparable orders from other distributors, or on commercially reasonable terms. If the Group were unable to do so, its turnover from sales of horological instruments, and in turn its profitability, may be harmed.

The Group is dependent on the distributors of its horological instruments and has limited control over its subsequent re-sales to watch manufacturers.

The Group does not sell its horological instruments directly to watch manufacturers. Instead, the Group derives its turnover from sales to distributors who then re-sell the Group's horological instruments to watch manufacturers. To the best of the Directors' knowledge, the watch movement distributors are Independent Third Parties. None of the Group's distributors are obliged to work exclusively with the Group. [As at the Latest Practicable Date], the Group mainly sold its horological instruments through four horological instruments distributors who have entered into distributorship agreements with the Group.

Since the Group does not sell its horological instruments to watch manufacturers directly, the level of control the Group has over the re-sale of its products by its distributors is limited. Therefore, there can be no assurance that the current distribution arrangements will be sufficient to maintain the level of sales achieved by the Group during the Track Record Period. Nor can there be any assurance that the services provided by its horological instruments distributors are of high quality. This dependence on horological instruments distributors exposes the Group to a number of risks, including the following:

- The distributors generally have contractual obligation to purchase agreed minimum quantities of the Group's products and they may not be able to honor the contractual obligation;

- To broaden the pool of potential customers for the Group's horological instruments, the Group relies on these distributors to expand their own distribution networks and there can be no assurance that any such expansion would be done in a timely manner or sufficient in scope to achieve any anticipated future growth in the Group's sales;

- The actions (or inaction) of these distributors when interacting with the watch manufacturers, at either the point of sale or during after-sales services, may damage the Group's reputation; and

- The Group generally enters into short-term, usually one year distributorship agreements with its distributors. There can be no assurance that such agreements will be renewed or renewed on terms that are acceptable to the Group.

The Group's primary competitors in its horological instrument business may have a number of competitive advantages over the Group.

Watch manufacturers in the PRC have historically imported quartz watch movement. The Group's multi-national competitors may have a greater access to financial and technical resources than the Group, and have stronger relationships with certain potential customers who are PRC-based watch makers. As a result, the Group may have added difficulty expanding its customer base in China for its plastic watch movements in the future.

Economic conditions and other factors beyond the Group's control may have a material adverse effect on the Group's sales, profitability and results of operations.

The amount of net sales and operating income generated may depend upon the general level of retail sales, as well as economic conditions and other factors beyond the Group's control. If events or circumstances were to occur that negatively impact consumer spending, it could have a material adverse effect on the Group's sales, profitability and results of operations.

The Group makes commitments regarding the level of business it still seeks and accepts, including production schedules and personnel levels, any significant order cancellations, reductions, or delays by its customers may materially and adversely affect its business.

The Group's sales of horological instruments are generally made pursuant to one year distributorship arrangements. The Group makes commitments regarding the timing of production schedules and the levels and utilisation of personnel and other resources. A variety of conditions may cause customers to cancel, reduce or delay orders that were either previously made or anticipated. Significant or numerous order cancellations, reductions or delays by the Group's customers may have a material adverse effect on the Group's business, financial condition or results of operations.

The prices of the Group's horological instruments have decreased in recent years, which may have a negative impact on the Group's sales and profit margins on that business line.

The pricing of the watch movements that the Group manufactures and sells has declined. These market conditions may have a negative impact on the Group's turnover from sales of any such products and its profit margins. Furthermore, the potential need for aggressive pricing programs in response to market conditions may further affect the Group's profit margins on that business line.

The Group's horological instruments may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the Group which could have a material adverse effect on its quartz watch movement business.

The Group's horological instruments are sold at prices that are significantly lower than the cost of the watches in which they are incorporated. Since a defect or failure in a product may give rise to failures in the end products that incorporate them (and claims for consequential damages against the Group), it may face claims for damages that are disproportionate to the sales and profits that the Group receive from the initial sale of the horological instruments involved. The Group's business may be materially and adversely affected as a result of a significant quality or performance issue in the products sold, depending on the extent to which the Group may be required to pay for the damages that result.

RISKS RELATING TO THE PRC

Substantially all of the Group's assets are located in the PRC, and a substantial majority of the Group's sales are made to customers in the PRC. Accordingly, the Group's financial condition, results of operations and prospects will be affected to a significant extent by economic, political and legal developments in the PRC.

Adverse changes in China's economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn, may materially and adversely affect the Group's business, financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past two decades, the PRC government has implemented economic reform measures, emphasizing the utilisation of market forces in the development of the Chinese economy. There can be no assurance that any changes in China's political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on the Group's current or future business, financial condition and results of operations. In response to concerns regarding China's high growth rate in industrial production, bank credit, fixed investment and money supply, the PRC government has, from time to time, taken measures to slow down economic growth to a more sustainable level. These measures and any additional crunch measures could contribute to a slowdown in the Chinese economy, which may materially and adversely affect our business, financial condition, and results of operations.

Inflation in the PRC may negatively affect the Group's profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past decade, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. If prices for the Group's products rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on the Group's profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. The implementation of such policies may impede economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. In April 2006, the People's Bank of China raised the interest rate again. Repeated rises in interest rates by the central bank will likely slow economic activity in China which may, in turn, materially increase the Group's costs and also reduce demand for its products.

A downturn in the economy of the PRC may slow down the Group's growth and profitability.

The growth of the Chinese economy has been uneven across geographic regions and economic sectors and may be affected by the global financial crisis. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on the Group's business, especially if it results in either a decreased use of its products or in pressure on the Group to lower its prices.

Compliance with more stringent environmental and workplace safety regulations may adversely affect the business operations of the Group.

All of the Group's operations are subject to compliance with applicable environmental, health and safety, fire prevention laws and other regulations. Any change in the scope or application of these laws, regulations or approvals may limit the production capacity or increase the costs of the Group. Any failure to comply with these laws and regulations may result in fines, penalties or lawsuits. There can be no assurance that the PRC government will not impose additional or more stringent laws or regulations, compliance of which may lead to the Group incurring significant capital expenditures, which may materially affect the business operations of the Group.

The Group's operating costs may increase due to provision of staff benefits as required by the PRC government.

Pursuant to the relevant PRC laws and regulations, the Group has made and continues to make contributions to a National Social Security Fund. Should the scope of these employee contribution funds expand or the rate of the Group's mandatory contributions increase, the Group's operating costs may increase, thereby negatively affecting its profitability.

Changes in the PRC Government policy in relation to capital expenditures or other investment in the industries in which the Group's customers operate may adversely affect the Group's business operations.

The Group's business operations may be affected to a significant extent by the changes in PRC government policies from time to time. The Group serves a large number of industries and customers, and the level of their demand for the Group's products and services may fluctuate due to factors beyond its control, one of which include changes in the PRC government policies applicable to the industries in which the Group and its customers operate. Apart from demand for high precision industrial automation instrument and technology products as a result of routine maintenance, repair and upgrades, the major demand for high precision industrial automation instrument and technology products comes from new factories or other projects, that requires entirely new automation systems to be installed. If future government policies discourage or are not favourable to capital expenditures or other future investments in the relevant industries, the demand for the Group's high precision industrial automation instrument and technology products may be directly and adversely affected. As such, there is no assurance that the demand for the Group's products and services will not decline as a result of future PRC government policy changes.

The Group's operations may be adversely affected by any unexpected interruptions in its production process.

Every stage in the Group's production lines must run smoothly in order for the Group to manufacture its products at an acceptable yield rate and with sufficient quality. Its production lines may be seriously affected by interruptions due to fires, power failure or other factors that are beyond the Group's control. Any such disruption of the Group's operations may cause interruption or delay in its production, preventing it from meeting customer orders, increasing its costs of production or requiring it to make unplanned capital expenditures, each of which may adversely affect its business and results of operations.

The Company is a holding company that heavily relies on dividend payments from its subsidiaries for funding.

The Company is a holding company incorporated in the Cayman Islands and conducts substantially all of its operations through its operating subsidiary, Fujian Wide Plus. Most of the assets of the Company are held by, and substantially all of the Company's earnings and cash flows are attributable to, Fujian Wide Plus. Therefore, the availability of funds to enable the Company to pay dividends to its Shareholders depends upon the dividends received from Fujian Wide Plus. The ability of Fujian Wide Plus to pay dividends depends on business considerations including its operating results and cash flows, and regulatory restrictions including its articles of association and applicable provisions of the PRC laws and regulations. If Fujian Wide Plus incurs indebtedness or losses, such indebtedness or losses may impair its ability to pay dividends or other contributions to the Company and the ability of the Company to pay dividends and to service its indebtedness will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including Hong Kong Financial Reporting Standards ("HKFRS"). PRC laws also require PRC incorporated enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that the Company or its subsidiaries may enter into in the future may also restrict the ability of its subsidiaries to make contributions to the Company and its ability to receive distributions. Therefore, these restrictions on the availability and usage of the Company's major source of funding may impact the ability of the Company to pay dividends to its Shareholders and to service its indebtedness.

The Group may not be able to adequately protect its intellectual property, which may adversely affect the business operations of the Group.

The Group's ability to compete successfully and to achieve future revenue growth will depend, in a significant part, on its ability to protect its proprietary technology. Please see the sub-section headed "Intellectual Property Rights" under the "Business" section in this document. The Group seeks to protect its intellectual property rights through a combination of trade secrets patents, contractual rights and copyrights. The enforcement of PRC intellectual property-related laws has historically been difficult, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in other countries. Policing any unauthorised use of the

Group's intellectual property is difficult and costly, and the steps the Group has taken may be inadequate to prevent the leakage of its trade secrets or misappropriation of its proprietary technology. Additionally, there can be no assurance that any patent or registered trademark owned by the Group will be enforceable or will not be invalidated, circumvented or otherwise challenged in the PRC or that the rights granted thereunder will provide competitive advantages to the Group or that any of its pending or future patent applications will be issued with the scope of the claims sought by the Group. Furthermore, as the Group only holds PRC patents, if third parties manufacture and sell products using its patented technologies outside of the PRC in competition against the Group, it may not have a legal cause of action against them.

The Group currently collaborates with certain universities and educational institutes to develop new technologies and products and some technologies and products so innovated are to be jointly-owned by the Group and the respective universities and educational institutes. There is no assurance that the Group can secure protection for its intellectual property rights in the new technologies and products developed by the Group under such collaborations or that its competitors will not independently develop alternative technologies that are equivalent or superior to the technologies based on these intellectual properties.

Any of these events or occurrences may have a material adverse effect on the Group's operations. In addition, litigation may be necessary to enforce the Group's patents and other intellectual property rights, determine the validity of and scope of the proprietary rights of others, or defend against claims of infringement or invalidity. Litigation may result in substantial costs and diversion of resources which may harm the business of the Group and may result in its intellectual property rights being held invalid or unenforceable.

Government control in currency conversion and future movements in foreign exchange rates may adversely affect the Group's financial condition, results of operations, and ability to remit dividends.

The value of the Renminbi depends on the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on PBOC Rates set by the People's Bank of China ("PBOC"). Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. However, the Chinese government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, the revaluation resulted in the Renminbi appreciating against the U.S. dollar and Hong Kong dollar by approximately 2%. On 23 September 2005, the Chinese government widened the daily trading band for Renminbi against non-U.S. dollar currencies from 1.5% to 3% to improve the flexibility of the new foreign exchange system. A significant appreciation of the Renminbi will have a material impact on the Group's foreign currency denominated revenue from the Group's operations. A significant depreciation of Renminbi will, on the other hand, affect the Group's ability to remit dividends.

In addition, Renminbi is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control (the "Exchange Regulations") have been issued by the PRC government which are designed to allow a degree of convertibility of Renminbi. Under the Exchange Regulations, foreign investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks by complying with various procedural requirements. Control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Under the current foreign exchange control system, there is no guarantee that the Group will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

The Group's financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, such as Hong Kong dollars and US dollars, as some of the Group's revenues, obligations or holdings are denominated in Hong Kong dollars or US dollars.

The Group currently faces foreign currency exchange risk.

The Group is subject to foreign currency exchange risk, which it is currently not being hedged. During the Track Record Period, the Group's turnover, costs of sales and operating expenses have, to a limited degree, been denominated in different currencies. During the Track Record Period, 86.7%, 86.5% and [89.9]% of the Group's turnover was derived from sales in the PRC (other than Hong Kong) denominated in Renminbi, while the remainder was derived from sales in Hong Kong denominated in Hong Kong dollars and US dollars. The Group does, however, have certain other costs and expenses related to its business denominated in other currencies, including imported machinery. During each of the financial years ended 30 June 2007 and 30 June 2008, the Group recorded an exchange loss of approximately RMB110,000 and RMB3,112,000. During the financial year ended 30 June 2009, the Group recorded an exchange gain of approximately RMB63,000.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the US dollar. Since then and up to 30 June 2009 the Renminbi has appreciated by approximately [17.45]% against the US dollar. Should there be significant changes in the exchange rate of the US dollar against the Renminbi in the future, the Group's financial condition and results of operations may be adversely affected.

The PRC legal system is not fully developed and has inherent uncertainties that may limit the legal protections available to the Group.

The PRC legal system is based on written statutes and their legal interpretation by the Standing Committee of the National People's Congress (全國人民代表大會常委會). Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

Payment of dividends by the Group is subject to restrictions under the applicable PRC law.

Under the PRC law, dividends may be paid only out of distributable annual earnings. Distributable annual earnings means the after-tax profits of Fujian Wide Plus as determined under the PRC GAAP, less any accumulated losses brought down from previous years and any allocations to certain reserve funds (including the statutory reserve fund and the discretionary reserve fund) that Fujian Wide Plus is required to make. Any distributable annual earnings that are not distributed in a given year are retained and available for distribution in subsequent years.

Withholding tax on dividend income received from the PRC subsidiary of the Group.

After confirmed with the PRC legal advisers to the Group, under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC. It is unclear whether the dividends the Group pays with respect to the Shares would be treated as income derived from sources within the PRC and be subject to PRC tax. Pursuant to a tax treaty between the PRC and Hong Kong that became effective on 8 December 2006, a company incorporated in Hong Kong is subject to a withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds 25% or more of the PRC company, or 10% if holds less than 25% of the PRC company. As Fujian Wide Plus is the wholly owned subsidiary of Wide Plus High Precision, a company incorporated in Hong Kong, income received from Fujian Wide Plus is subject to a 5% withholding tax. If the Group is required under the PRC Enterprise Income Tax Law to withhold PRC income tax on the Group's dividends payable to the Group's foreign Shareholders, the value of their investment in the Shares may be materially and adversely affected.

The Group may not be able to continue to enjoy its current preferential tax treatment.

On 16 March 2007, the National People's Congress promulgated the new Corporate Income Tax Law (the "New CIT Law"), under which China will adopt a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoke the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. Fujian Wide Plus was exempted from corporate income tax for the two years ended 31 December 2005 and is currently enjoying a 50% reduction for the three years ended 31 December 2008. Fujian Wide Plus was accredited as a hi-tech enterprise in December 2008. Hence, it was granted the tax benefit of reducing corporate income tax rate to 15% for the two years ending 31 December 2010. Thereafter, the Group may not be entitled to any preferential tax treatment unless it is entitled to other preferential tax treatment under the New CIT Law. In such case, it may have an adverse effect on the Group's financial results. Moreover, the Group's historical financial results may not be indicative of its financial results for future years after expiration of the tax benefits currently available to the Group.

There can be no assurance that the New CIT Law, its application or its interpretation will not continue to change; in which case the effective income tax rate of the Group's PRC subsidiaries may increase significantly.

It may be difficult to effect service of process on, or to enforce judgments against, the directors or the Company's senior management who reside in the PRC in connection with disputes brought in courts outside the PRC.

Some of the Directors and senior management of the Company reside in the PRC and a significant majority of the Group's assets, and the assets of such persons, are located in the PRC. Accordingly, it may be difficult to effect service or process on, or to enforce any judgment against, the Group or such persons, in respect to litigation brought in courts outside the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in the United States, the United Kingdom, Japan, the Cayman Islands and most of other western countries. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provisions may be difficult or even impossible. In addition, there is substantial doubt as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong or the US or most of other western countries.

Acts of God, acts of war and epidemics which are beyond the Group's control may cause damage, loss or disruption to the Group's business.

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Further, the Group may be unable to insure against certain types of losses, including losses caused by earthquakes, typhoons, floods, wars and riots. The Group's business, operating results and financial condition may be adversely affected in a material respect if such natural disasters occur.

Epidemics threaten people's lives and may adversely affect their livelihoods as well as living and consumption patterns. For example, the outbreak of severe acute respiratory syndrome or SARS, in 2003 and the outbreak of avian flu in 2004 in Asia had an adverse impact on the economy of the PRC and other parts of Asia. The occurrence of an epidemic is beyond the Group's control and there is no assurance that such outbreak will not happen again. Any epidemic occurring in areas in which the Group operates, or even in areas in which the Group does not operate, may adversely affect the Group's business, operating results and financial condition in a material respect.

Acts of war and terrorist attacks may cause damage to the Group's property or personnel or disrupt its facilities, its operations, its distribution channels or the markets into which it sells its products, any of which could materially affect the Group's sales, cost of sales, overall operating results and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause the Group's business to suffer in ways that the Directors cannot currently predict.

Dividends on the Shares may be subject to PRC income taxes.

Under the Law of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅法), the Group may in the future be recognized as a PRC tax resident enterprise by the PRC taxation authorities, the dividends on the Shares payable to foreign Shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If the Group is required under the People's Republic of China on

Enterprise Income Tax (中華人民共和國企業所得稅法) to withhold PRC income tax on dividends on the Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in the Shares may be materially and adversely affected.