RISKS RELATING TO THE BUSINESS OF THE GROUP

Reliance on the supply of IBM's enterprise IT products

For each of the three years ended 31 December 2008 and for the six months ended 30 June 2009, products supplied by suppliers of IBM's products in each of these periods accounted for approximately 78.7%, 78.7%, 80.1% and 84.0% of the Group's purchases respectively. These IBM's products were mainly enterprise IT products like servers and system storage products which were the most significant contributors to the Group's revenue in these periods, accounting for approximately 85.0%, 90.2%, 91.9% and 93.7% of the Group's revenue respectively. Although the Group will continue to diversify its enterprise IT products portfolio, the Directors expect such IBM's products will continue to account for a relatively large portion of the Group's revenue for the foreseeable future.

Furthermore, consistent with IBM's practice with distributors in the PRC, the Group has entered into separate non-exclusive distribution agreements with four group companies of IBM generally for a term of one year, which, pursuant to those agreements, are automatically renewable for two years after the expiry of the initial term. There is no assurance that the existing distribution agreements with IBM will be renewed upon their expiry or when renewed, will be on commercially acceptable terms to the Group. In addition, these distribution agreements may be terminated by IBM if the Group breaches a material term of the agreements, such as not achieving the minimum purchase attainments, or may be terminated, with or without cause, on three months' written notice. There is no assurance that IBM will not terminate the distribution agreements with the Group in the future.

The Group's business and results of operations rely heavily on the distribution of IBM's enterprise IT products and customers' loyalty towards those products. If there is any circumstance which adversely affects the market acceptance of IBM's enterprise IT products and setback of IBM's financial conditions and/or operating conditions, or if the Group is not able to renew the distribution agreements with IBM or renew those distribution agreements on commercially acceptable terms, or if those distribution agreements are terminated by IBM, the Group's business and operating results may be adversely affected.

Reliance on a small number of key suppliers and products

The Group is an authorized distributor of certain enterprise IT products in the PRC for IBM, Oracle and Huawei Symantec. During the Track Record Period, the Group's five largest suppliers (on group basis) accounted for approximately 92.4%, 88.9%, 89.0% and 91.2% of the Group's total purchases for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively.

Reliance on a small number of suppliers generally involves several risks, including the possibility of defective products from a supplier which does not provide warranty indemnity, loss of market share of supplier's products, failure of supplier's products to keep updates on IT technology change or consumer preference, a shortage of product supply, reduced control over costs and loss of such suppliers. Furthermore, some of the non-exclusive distribution agreements with certain of the Group's major suppliers are renewed annually and some of the distribution arrangements may be terminated by the suppliers at any time (in some cases, without cause) by giving the Group a prior written notice ranging from 30 days to 3 months. If there are significant price fluctuations for such products, any supplier fails to satisfy the requirements of the Group or the Group's relationship with such supplier is terminated or deteriorated for any reason, for example, the failure of the Group to achieve the minimum annual purchase attainment as agreed between the Group and such supplier, the Group's revenue and profitability could be materially and adversely affected, particularly when the Group is unable to identify alternative sources of supply for the same or similar products in a timely manner.

The Group may not be able to keep updates on IT technology change, its suppliers' technologies and consumer preference

The market for the products of the Group's suppliers is characterized by rapidly-changing IT technology and introduction of new products. The demand for enterprise IT products and services are also subject to business cycles, which may rise or fall along with overall economic growth and business investment environment. The success of the Group will depend upon its technical know-how on these new IT technologies, product features and implementation methods, its ability to respond and adapt quickly to IT technology change and business cycles, as well as its capability to understand the changing needs, preferences and requirements of its customers.

If the Group fails to keep updates on IT technology change and introduction of new products, or keep pace with new developments and trends in the IT market and the demands of its customers, its ability to respond effectively to customer demands may be affected, which may undermine the Group's future development and have an adverse impact on the Group's business and financial results.

The Group may not be able to deliver the products on a timely basis

The enterprise IT products that the Group sells are typically part of a larger and more complicated computer system of the end-users (who may be the Group's direct customers or the customers of the Group's business partners). As such, the Group may need to deliver these products according to a pre-agreed master schedule in order for the integration work to be completed as planned. If the Group is responsible for a delay in the delivery of the enterprise IT products, or there are any material disruptions to the supply and/or delivery of these products from the suppliers after the relevant purchase orders are made, the Group may be exposed to claims and its profits and reputation may be materially and adversely affected.

Sustainability of revenue, gross profit margin and net profit margin in the future

The Group generates revenue from the distribution of enterprise IT products and provision of IT technical support services mainly on project basis, which may not be recurring. There is no assurance that the Group can conclude sales on projects of similar number and sales amount in the future. Hence, the Group's revenue may fluctuate and not be sustainable in the future.

In addition, during the Track Record Period, the Group's gross profit margin was approximately 5.5%, 8.5%, 7.4% and 9.1% respectively and the Group's net profit margin was approximately 0.4%, 1.6%, 1.9% and 3.0% respectively. The sustainability of the Group's profit margin may be affected by a number of factors, including, among other things, the types of products sold and the amount of rebates offered by IBM. The selling price and purchase cost for each order vary according to a combination of factors including, but not limited to, the relative bargaining power of both of the Group's suppliers and customers, the pricing basis, demand and supply in the market and the market price. Many of these factors are beyond control of the Group. Therefore, the selling price and purchase cost for each order may differ even for the same product produced within the same time period. There is no assurance that the Group will be able to achieve or maintain gross profit margin or net profit margin in the future at a similar level as the Track Record Period, which were generally thin for the business of IT product distribution. Please refer to the section headed "Financial information" of this document for a detailed discussion and analysis of the financial condition and results of operation of the Group during the Track Record Period.

Reliance on rebates from suppliers of IBM's products

Suppliers of IBM's products currently offer various performance-related rebates to their distributors, including the Group, in respect of the purchase and sale of IBM's products. During the Track Record Period, the total rebates recorded by the Group amounted to approximately HK$56.3 million, HK$45.6 million, HK$67.2 million and HK$10.2 million for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively and approximately HK$69.1 million, HK$47.2 million, HK$60.1 million and HK$18.5 million were realized in the cost of sales respectively, representing approximately 3.8%, 2.5%, 2.5% and 1.7% respectively of the Group's total cost of sales before rebates for the corresponding periods. Although the Directors believe that suppliers of IBM's products will continue to offer incentives to their distributors, there is no assurance that there would not be any significant change to the current incentive policy from suppliers of IBM's products applicable to the Group. If no rebates were received from suppliers of IBM's products for the three years ended 31 December 2008 and for the six months ended 30 June 2009, the Group would have recorded a gross profit of approximately HK$32.5 million, HK$123.8 million, HK$129.1 million and HK$88.9 million respectively and a net (loss)/profit after tax of approximately HK$(57.8 million), HK$(12.1 million), HK$(4.5 million) and HK$20.3 million respectively in these periods. In the event that suppliers of IBM's products cease to grant such rebates or if the amount of such rebates decreases, the Group's financial performance and profitability may be adversely affected.

Reliance on key management

The future success of the Group depends upon the continued service of its senior management. Many of its key executive persons, including the executive Directors, namely Mr. Chen Jian, Ms. Zhang Yun and Mr. Guan Tao, have been with the Group or working in the industry related to the Group's business for over ten years. Their experiences have contributed to the success of the Group's business. If the Group loses the services of any of these key personnel and the Group is unable to find suitable replacement, it may adversely affect its operating results and future development.

Inventory risks

The inventory of the Group consists mainly of IT products and other components. These comprised approximately 33.0%, 33.5%, 29.7% and 25.7% of the Group's current assets during the Track Record Period.

In practice, the Group maintains its inventory at a certain level with reference to its sales plan. As such, if there is any sudden change in the demand of enterprise IT products, the Group may face an inventory risk if stock levels are not properly monitored or managed. Should the Group fail to manage its inventory properly, provisions will have to be made for slow-moving stocks, which may adversely affect the Group's profitability.

Trade and other receivables and liquidity risks

Trade and other receivables accounted for approximately 45.3%, 46.2%, 50.5% and 57.7% of the Group's total assets throughout the Track Record Period. There may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its receivables from the customers or their settlements are made on a timely manner. In the event the settlements from the customers are not made in full or not on a timely manner, the financial position, profitability and cash flow of the Group may be adversely affected.

Furthermore, as a distributor, the Group is generally required to purchase its products from its suppliers first before it sells to its customers. This means that the Group will generally have to pay its suppliers first before it collects payment from its customers. There is a risk that any mismatch between the time the Group sources its products and the time it collects payment from its customers may affect the Group's liquidity if it is not managed properly. If the Group is unable to maintain a sufficient level of liquidity in its business operations, its financial condition and performance may also be adversely affected.

The quality of products manufactured by the suppliers is not subject to the Group's control

The Group currently distributes certain brands of enterprise IT products and the Group has no control on the quality of those products provided by the suppliers. In the event that there are massive product defects, the reputation and the sales of the Group may be adversely affected. The Group may also be subject to legal proceedings initiated by the aggrieved customers in respect of the suppliers' product defects which may divert the Group's attention from its business and the consequences thereof could have material adverse effects on the Group's reputation and financial condition.

Reliance on suppliers' credit

The suppliers of IBM's products extend credit to the Group to allow flexibility for the Group to manage its payment cycle. The Group is generally allowed 60 days from the invoice date to make payments, with interest charged on any outstanding balance over 30 days. The credit charges payable to those suppliers of IBM's products were approximately HK$9.3 million, HK$12.5 million, HK$11.1 million and HK$3.5 million, accounting for approximately 31.1%, 40.6%, 32.5% and 30.3% of the Group's total finance costs for the Track Record Period. The interest rates charged by the suppliers of IBM's products ranged from 8.0% to 12.0% during the Track Record Period. There is no assurance the interest rates to be charged and the credit limit to be offered by the suppliers of IBM's products in the future will remain at the same level. In the event that any suppliers of IBM's products impose a higher credit charge or tighten the credit limit on the Group or terminate the abovementioned credit arrangements and the Group cannot obtain other financing at similar terms and conditions, the financial position of the Group may be adversely affected.

The Group's customers may order IT products directly from the Group's suppliers

With the establishment of sales teams by industries, the Group has built solid relationship with its customers (end-users and business partners) in various industries. Among the customers who signed contracts with the Group for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009, approximately 58.5%, 68.1%, 68.7% and 65.6% of which respectively have made repeated purchases from the Group during the Track Record Period. Leveraging on the Group's accumulated in-depth IT technical know-how on features and functionalities of the enterprise IT products that it distributes and its updated and thorough understanding of business development and associated IT demands of its customers in various industries, the Directors believe that the Group has competitive advantage in delivering more customer-specific value-added IT solutions and services in association with distribution of enterprise IT products. However, there is no assurance that the Group's customers would not order those IT products directly from the Group's suppliers. In the event that the Group's customers order IT products directly from the Group's suppliers, the Group's business and financial results may be adversely affected.

Dividend policy

The declaration, payment and amount of any future dividend of the Company will be subject to the discretion of the Directors, and will depend upon, among others, the Group's results of operations, cash flows and financial condition, operating and capital requirements and other relevant factors prevailing at the time. There is no assurance that dividends will be declared at all in the future, and potential investors should be aware that historical dividends should not be used as a reference or basis upon which future dividends may be determined.

The Group's results may be adversely affected by the recent economic downturn in the world

The recent economic downturn during the second half of the financial year ended 31 December 2008 which could be reflected by the credit tightening, the increased unemployment rate and the liquidity problems of financial institutions, has adversely affected the US and the world economies. With a deteriorating worldwide economy, demand for IT products may diminish and be delayed as a result of cost control on IT budget implemented by enterprises affected in the global financial downturn, which in turn may affect the demand for the Group's enterprise IT products. In addition, the credit tightening environment may aggravate the interest expenses on the Group's bank borrowings, or the banks may even reduce the amount of or discontinue the banking facilities currently granted to the Group. If the economic downturn continues, the business operation and financial position of the Group may be adversely affected.

The Group's net cash outflow from operating activities

The Group recorded net cash outflow from operating activities of approximately HK$20.9 million and HK$66.5 million for the year ended 31 December 2007 and the six months ended 30 June

2009, respectively. The net cash outflow from operating activities for the year ended 31 December 2007 was due to a significant increase in inventories as a result of the significant purchase close to year end. The net cash outflow from operating activities for the six months ended 30 June 2009 was due to the decrease in trade and other payables as a result of the earlier settlement to suppliers to minimize high credit charges imposed by those suppliers. The Group cannot give any assurance that the Group will continue to record positive operating cash flow in the future. The Group's liquidity and financial condition may be materially and adversely affected should its future operating cash flow become negative and the Group can give no assurance that the Group will have sufficient cash from other sources to fund its operations. If the Group resorts to other financing activities to generate additional cash, the Group will incur additional financing costs and the Group cannot guarantee that the Group will be able to obtain financing on terms acceptable to the Group or at all. For the details about the Group's indebtedness and liquidity, financial resources and capital expenditure, please refer to the paragraph headed "Liquidity, financial resources and indebtedness" in the section headed "Financial information" in this document.

RISKS RELATING TO THE INDUSTRY

Reduced spending on enterprise IT products and services may affect the Group's business

The Group's business and revenue growth not only depends on the Group's ability to attract customers to its enterprise IT products and services, but also on the level of spending on enterprise IT products, systems and solutions of its customers.

Furthermore, the general health of the PRC economy will also have an effect on the level of spending on enterprise IT products and services of consumers in the PRC as a whole. Any general economic, business or industry conditions that cause customers or potential customers to reduce or delay their investments in enterprise IT products and services could harm the Group's business. If there is a significant downturn in the PRC market or a significant reduction in consumer demand in the PRC for products distributed or services offered by the Group, the Group's business may be adversely affected.

Intense competition in the IT industry in the PRC

As at the Latest Practicable Date, so far as the Directors are aware, there were a limited number of large distributors engaged in the enterprise IT products distribution business in the PRC. The Group therefore faces intense competition from a number of such large distributors. Moreover, there are other global IT products suppliers that offer enterprise IT products with similar features and functions as those distributed by the Group. Even though the Directors consider that there are some barriers to entry for new entrants to the industry as it would take time to build a comprehensive customer and supplier network, investors should note that there is no assurance that other competitors will not surpass the Group's performance in the future. In the event that competition intensifies or the Group fails to sustain its competitive strengths or effectively implement its business strategies, the Group's business, results of operations and financial position may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Political and economic policies of the PRC government could affect the Group's business

With the commencement of the PRC government's efforts to reform the Chinese economic system in the late 1970s, the PRC government has placed increasing emphasis on the utilization of market forces to develop the PRC economy. Over the last three decades, the PRC government's reform measures have resulted in the PRC economy experiencing significant growth and social progress. However, many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Any revision or modification to the economic and political strategies and policies of the PRC government could have a material adverse effect on the overall development of the IT products and services market in the PRC. With all of the Group's main operating assets and customers located in China, the Group's operations and financial results could be adversely affected by any stagnation in the development of this market in the PRC. The Group may not in all cases be able to capitalize on economic reform measures adopted by the PRC government. There is no guarantee that the PRC government will not impose economic and regulatory controls that would harm the Group's business.

Any changes in the PRC government policies regarding foreign investments in the PRC may adversely affect the Group's business, financial condition and results of operations

Foreign investments are subject to foreign investment policies and laws of the PRC. Under the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) that came into effect on 1 December 2007, the Group's business of "distribution of IT products" does not fall under the prohibited or the restricted categories for foreign investments. There is no assurance that the Group's business would not fall under such prohibited or restricted categories subsequent to any change to the foreign investment policies and laws of the PRC or that the Group could not be subject to more stringent restrictions on its operation and business, which may adversely affect its financial condition and results of operations.

Distribution and transfer of funds may be subject to restrictions under PRC laws

The Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in its subsidiaries. The Company relies entirely on the dividend payments from its subsidiaries, especially its principal operating subsidiaries in the PRC. Under the PRC laws, dividends from its subsidiaries in the PRC may only be paid out of net profit calculated according to PRC accounting principles, which are different in many respects from the International Financial Reporting Standards, and after recovery of accumulated losses and allocations to statutory reserves which are not available for distribution as cash dividends. Distributions by the Company's subsidiaries in the PRC to the Company may be subject to governmental approval and taxation. These requirements and restrictions may affect the ability of the Company's PRC subsidiaries in the distribution and payment of dividends and in turn affect the Company's ability to pay dividends to its Shareholders. Any transfer of funds from the Company to its subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. These limitations on the free flow of funds between the Company and its PRC subsidiaries could restrict the Company's ability to act in response to changing market conditions in a timely manner. Furthermore, members of the Group may obtain credit facilities from banks in the future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

Foreign exchange considerations

The exchange rates for RMB against foreign currencies, including US$ and HK$, are susceptible to movements based on external factors and there can be no assurance that RMB may not be subject to devaluation. As the Group's revenue and purchases are primarily denominated in RMB and US$, fluctuations in exchange rates may adversely affect the value, translated or converted into HK$, of the Group's net assets, earnings and any declared dividends. Although the Group currently does not have very substantial foreign debt obligations, the Group may incur new debt financing which may include foreign currency denominated borrowings. Any adverse fluctuations in exchange rates among these foreign currencies may materially and adversely affect the Group's results of operations. Although the Group may, from time to time, enter into hedging transactions to mitigate its foreign currency exchange risk exposure, the effectiveness of such hedges may be limited and the Group may not be able to successfully hedge its exposure.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect the Group's business and results of operations

On 29 June 2007, the National People's Congress of China enacted the Labor Contract Law (《勞動合同法》), which became effective on 1 January 2008 to impose more stringent requirements on employers for entering into labor contracts and dismissal of employees. Further, under the newly promulgated Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to fifteen days, depending on their length of service. Employees who waive such vacation entitlement at the request of employer shall be compensated at three times of their normal salaries for each waived vacation day. As a result of these new protective labor measures, the Group's labor costs may increase and the Group's future operations may be adversely affected.

The preferential tax treatments the Group currently enjoys may be changed or discontinued, which may adversely affect the Group's profitability

Futong Dongfang was accredited as an "advanced and new technology enterprise" located within the Beijing New Technology Industry Development Experimental Zone by Beijing Municipal Science and Technology Commission (北京市科學技術委員會) on 26 December 2003, and it was entitled to certain favorable tax treatments as approved by the tax authorities with authorization from the Beijing People's Government under the Laws of Enterprise Income Tax for Foreign-invested Enterprises and Foreign Enterprises in the PRC (《中華人民共和國外商投資企業和外國企業所得稅法》) and the Tentative Regulations of Beijing New Technology Industry Development Experimental Zone (《北京市新技術產業開發試驗區暫行條例》), in particular it was entitled to an applicable enterprise income tax rate of 15% with a three year full exemption since 2004, and a preferential enterprise income tax rate of 7.5% for the subsequent three years. Futong Dongfang's status as an advanced and new technology enterprise was reviewed and recognized by Beijing Municipal Science and Technology Commission in 2006 and 2008 respectively.

On 16 March 2007, the National People's Congress of China passed the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "New Tax Law"), which became effective on 1 January 2008, pursuant to which the foreign-invested enterprises and domestic enterprises were subject to a unified enterprise income tax rate of 25% (reduced from original enterprise income tax rate of 33%) effective from 1 January 2008. Pursuant to the GuoFa [2007] No.39 "Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Policies" (《國務院關於實施企業所得稅過渡優惠政策的通知》國發[2007]39號), enterprises enjoying income tax rates lower than the standard tax rate of 33% are given a fixed-term transitional period, and such enterprises will continue to enjoy a lower tax rate before they are gradually subject to the unified tax rate of 25% within the transition period. Furthermore, the New Tax Law provides a preferential tax treatment for "advanced and new technology enterprises eligible for key support from the State" in the form of a reduced tax rate of 15% subject to competent governmental authorities' review and approval.

Pursuant to the New Tax Law and the Administrative Rules for Recognizing Advanced New Technology Enterprises (《高新技術企業認定管理辦法》) which became effective on 1 January 2008, Futong Dongfang was re-certified to maintain the status of "advanced and new technology enterprise" on 24 December 2008 with an effective term of three years and was further granted an approval from the competent tax authorities, under which it continuously enjoys a 50% tax deduction (i.e., the applicable reduced tax rate of 7.5%) from 1 January 2008 to 31 December 2009, and will enjoy the preferential tax rate of 15% applicable to advanced and new technology enterprises from 1 January 2010 to 31 December 2010. However, there is no assurance that Futong Dongfang will be continuously granted the status of "advanced and new technology enterprises" with the favorable tax rate of 15%, and any change or discontinuation of such favorable tax treatments may adversely affect the Group's profitability.

Recent changes to the PRC tax laws, and any future changes may have material adverse impact on the Group's financial condition and results of operations

Under the New Tax Law, an enterprise established outside the PRC with its "de facto management body" within the PRC is considered as a "resident enterprise" and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. Substantially all of the Company's management members are based in the PRC. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, it is possible that its worldwide income will be subject to income tax at a uniform rate of 25%. Notwithstanding the foregoing provision, the New Tax law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions.

Therefore, if the Company is classified as a resident enterprise, the dividends received from its PRC subsidiaries may be exempted from income tax. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company having ownership interest in a PRC enterprise.

In addition, under the New Tax Law and its implementation rules, dividends paid to a non-PRC investor are generally subject to a 10% withholding tax (or 5% for a qualified Hong Kong company), if such dividends are derived from sources within the PRC and the non-PRC investor is considered to be a non-resident enterprise without any establishment or place within the PRC or if the dividends paid have no connection with the non-PRC investor's establishment or place within the PRC, unless such tax is eliminated or reduced under an applicable tax treaty. Similarly, any gain realized on the transfer of shares by such investor is also subject to a 10% withholding tax (or 5% for a qualified Hong Kong company) if such gain is regarded as income derived from sources within the PRC, unless such tax is eliminated or reduced under an applicable tax treaty.

If the Company were classified as a resident enterprise, although it is not entirely clear, it is possible that the dividends the Company pays to its Shareholders with respect to its Shares, or any gain an investor may realize from the transfer of Shares, would be treated as income derived from sources within the PRC and be subject to the 10% withholding tax (or 5% for a qualified Hong Kong company).

PRC rules and regulations on foreign exchange control may adversely affect the Company

According to Circular 75 promulgated by SAFE coming into effect on 1 November 2005, the PRC residents (境內居民) who have contributed or intend to contribute their domestic assets or shares into overseas special purpose vehicles with an intent to transfer or swap shares with offshore investor(s) and further conduct round-trip investments shall complete foreign exchange registrations or supplemental registrations for offshore investments with the local foreign exchange authority. Circular 75 further stipulates that without completion of the aforesaid registrations, no profits, dividends, liquidation or decreasing capital shall be transferred to the overseas special purpose vehicle(s). Furthermore, the PRC residents are required to go through registration for modification or filing with the local foreign exchange authority within 30 days from the date of occurrence of any material capital change event, such as increase/decrease of capital, share transfer or swap, merger or splitting, long term equity or debt investments and foreign guarantee, provided however that such material capital change event does not involve round-trip investments. For PRC residents who have set up or otherwise controlled overseas special purpose vehicle(s) and completed the round-trip investments before 1 November 2005, Circular 75 permits them to go through the foreign exchange supplemental registrations at the local foreign exchange authority before 31 March 2006. All the existing beneficial Shareholders that are PRC residents have applied for their foreign exchange registration of overseas investments at the Beijing branch of SAFE, but the registration procedures had not yet been completed as at the Latest Practicable Date. Failure to conduct the above registrations and supplemental registrations, registration for modification or filing of the material capital change event with the local foreign exchange authority may limit the ability of such company to remit its profits, liquidation, share transfer and capital decreasing fees aboard, and punishment could be imposed upon for foreign exchange evasion or other non-compliance.

Furthermore, there is no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of RMB. As the Company's subsidiaries in the PRC generate a significant proportion of the Group's revenue and these revenue are denominated mainly in RMB, future restrictions on currency exchange may limit the Group's ability to repatriate profits by the distribution of dividends to its Shareholders or to fund its other business activities outside of the PRC.

Potential recurrence of severe acute respiratory syndrome (SARS), pandemic influenza, avian influenza (including H5N1) or influenza A (H1N1) (also sometimes referred to as swine influenza) or other widespread public health problem

The outbreak of SARS in early 2003 substantially affected businesses in Asia. The World Health Organization declared that the SARS outbreak had been contained on 5 July 2003, but a number of isolated cases of SARS were still reported in the PRC in April 2004. Currently, the Directors are unable to predict the potential impact of another possible SARS outbreak or an outbreak of other serious contagious diseases. Should another outbreak of SARS or another serious contagious disease take place, the financial condition and results of operations of the Group may be adversely affected as a result of a general adverse impact on the economy or otherwise.

Recently, the outbreak of disease among human beings caused by a new influenza virus of influenza A (H1N1) (also sometimes referred to as swine influenza) which originated in America and spread internationally, and most people do not have immunity to this virus. If any of the Group's employees are identified as a possible source of spreading pandemic, avian or swine influenza or any other similar epidemic, it may be required to quarantine employees suspected of being infected, as well as others that have come into contact with those employees. The Group may also be required to disinfect its affected operating facilities, which may adversely affect its operations.

In addition, any outbreak of any widespread public health problem may affect economic activities locally and internationally, which in turn may affect the financial condition and results of operations of the Group.

OTHER RISK FACTORS

Accuracy of official government statistics, facts and other information contained in this document with respect to the PRC and its respective economy

Certain official government statistics, facts and other information in this document relating to the PRC and its respective economy are derived from various official government publications and/or other research agencies sources that believe to be reliable. The [●] and the Directors have taken reasonable care in extracting and reproducing such information and statistics derived from official government publications and/or studies from other research agencies. These facts and statistics from government and/or other research agencies have not been independently verified by the Company, the [●], the [●], the [●], the [●] or any of their respective directors, affiliates or advisers, and therefore, the Company makes no representation as to the accuracy of such facts and statistics from government and/or other research agencies, which may not be consistent with other information compiled within or outside the relevant jurisdiction and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts and statistics from government and/or other research agencies contained herein may be inaccurate or may not be comparable from period to period or to statistics from government and/or other research agencies produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. As such, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics and should not place undue reliance on any of such information and statistics.

Risks associated with forward-looking statements

This document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "may", "ought to", "should" or "will". Those statements include, among other things, the discussion of the Group's growth strategy and expectations concerning its future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Company believes the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this "Risk factors" section, many of which are not within the Group's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations by the Company that its plans, or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. The Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.