Prior to making an investment decision, prospective investors should consider carefully all the information contained in this prospectus and in particular, the risk factors set out below.

RISKS RELATING TO THE GROUP

Competition

The Group may face significant competition from ISVs and ASPs which have moved into this area in view of the growth potential. There are no significant entry barriers to business similar to that of the Group. New entrants will continue to emerge. Any increase in competition could dilute the Group's market share, and lead to price reductions and increased expenses in marketing and product development. Any of these events could have material adverse effect on the Group's financial condition and profitability.

In addition, the ability of the Group to achieve and maintain a competitive position in the provision of products and services depends on its ability to develop new products that answers the market's demands at competitive prices. If it is unable to do so, the Group's financial condition and prospects may be adversely affected.

Reliance on key management

The Group's success is, to a significant extent, attributable to its management which comprises a handful of experienced senior executives and IT professionals. Although the Group has signed service agreements between the Group and all of its executive Directors for a term of two years (details of which are set out in the paragraph headed "Further information about directors, management and staff" in Appendix IV to this prospectus), there could be a material adverse impact on the Group's operations should any or a number of these key persons cease to be involved in the business of the Group.

Third parties' products

The Group develops its business application solutions based on the development tools and platform, deployment tools and platform, software products, and technologies of other IT vendors. In the event that any of these third parties ceases its business or ceases to produce such products, the Group will have to develop its business application solutions on a new platform. Should the aforesaid event occur, the business, operation and profitability of the Group could be affected.

Sustainability of profit

The Group achieved a growth in profit from approximately HK$1.16 million for the financial year ended 31st March, 1999 to approximately HK$1.54 million for the financial year ended 31st March, 2000. However, due to increasing competition from software companies, the Group's profit may be affected by decreasing selling prices and profit margins. As such, there can be no assurance that the Group can continue to achieve a growth in profit in the future.

A portion of the Groups' profit is derived from its maintenance contracts. However, with the Group transforming into a mobile B2B eBusiness solutions provider using ASP approach whereby the technical support and maintenance service fees will be all inclusive in the monthly rental, the

Directors expect the contribution from the maintenance contracts will decrease. Further, as the ASP industry is in its embryonic stage of its life cycle, in the event that the positioning of the Group as a mobile B2B eBusiness solutions provider using ASP approach is unsuccessful, the business and the profits of the Group could be adversely affected.

Reliance on other IT vendors

The Group purchases development tools and platform, deployment tools and platform and software products for the development and deployment of its application, and hardware products as part of the total solutions to its customers of customised business applications from other IT vendors. Depending on the needs of the customers purchasing customised business application solutions, different hardware products and/or software products are sourced and provided to the customers. As such, the amount of purchases of the Group from a supplier in a year may not be the same in any subsequent years.

For each of the two years ended 31st March, 2000, the Group's top five suppliers, in terms of value, accounted for approximately 69.3% and 69.9% of the Group's purchases respectively. The largest supplier accounted for approximately 22.1% and 26.8% of the Group's purchases for each of the two years ended 31st March, 2000. Should any of these suppliers cease to supply to the Group or their products become technically obsolete and the Group is unable to find suitable replacement, the Group's business and profitability could be materially affected.

Variance of major customers

The fees for developing customised solutions accounted for approximately 29.3% and 30.6% respectively of the Group's total turnover for each of the two years ended 31st March, 2000. The five largest customers of the Group for the two years ended 31st March, 2000 were all customers of customised business application solutions. For each of the two years ended 31st March, 2000, the Group's largest customer accounted for approximately 14.7% and 19.9% of the total turnover of the Group respectively, and the five largest customers of the Group accounted for approximately 45% and 45.3% of the total turnover of the Group respectively. Since substantial fees are derived from the Group's customers purchasing customised business application solutions which are on project-by-project basis, a customer of customised business application solutions that accounts for a significant portion of the Company's revenues in a year may not generate a similar amount of revenues, if any, in subsequent years. In addition, there is no assurance that the existing customers will retain the Company in the future. The loss of, or significant reduction in the volume of work performed for, any major customer may have an adverse impact on the business and profitability of the Group.

Intellectual property rights

The Group does not currently have any registered patent or copyright protection for its business application solutions. The Group relies on a combination of non-disclosure, confidentiality and other contractual agreements with its directors, employees and other third parties, as well as privacy and trade secret laws, to protect and limit access to and distribution of the intellectual property the Group has developed or acquired. The Group has also taken measures to prevent software piracy such as installing security lock and assigning a unique licence number to its business application solutions. A security lock is a hardware-based security system which protects software from piracy and unauthorised uses. The software application cannot be operated without the security lock. A unique licence number is assigned by the Group to individual security lock to identify the right of use of the purchased software applications.

As for the CyberM Business Series, the program is located at the ASPs and the customers only use the business application solutions upon registration without access to the program. However, despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Group's products or technology or to develop similar technology independently without authorisation. Moreover, former or existing employees of the Group who had or have access to the system architecture and the codes of the program may be able to build a similar system to compete with the Group. In addition, there are countries, such as the PRC, where effective copyright, patent, trademark and trade secret protection may be unavailable or limited. Policing unauthorised use of its proprietary technology is difficult and there can be no assurance that the steps taken by the Group will prevent misappropriation or infringement of the Group's technology. The low prices of the pirated articles might adversely affect the Group's sales and profit and, in addition, litigation may be necessary in the future to enforce the Group's intellectual property rights, protect the Group's trade secrets or determine the validity and scope of the proprietary rights of others, all of which could result in substantial costs and diversion of the Group's resources and its management's time and, as a result, may significantly harm the Group's business.

The Group's domain name, cyberm-sw.com is registered in the US. If this domain name is challenged by a third party, the Group may lose the right to use the domain name and the Group's business could be adversely affected.

Trademark Infringement

The Group will continue to market its traditional packaged software under the name of "Magic". According to a recent trademark search, trademark registration in respect of the names "Magic" and "CyberM" were not found under the relevant classes. Although the Directors believe that there is no likelihood of trademark infringement, as a contractual obligation, the Group relies on the written consent of Magic Software Enterprises Limited, a company incorporated in Israel which is independent from the Group, to use the "Magic" brandname. However, Magic Software Enterprises Limited can withdraw such consent at any time. Should this happen, the Group's business could be adversely affected.

The Group is applying for registration of certain trademarks for its products and services in Hong Kong as described in the section headed "Statutory and General Information — Intellectual Property Rights" in Appendix IV to this prospectus. The Trade Marks Registry has, by letters dated 31st July 2000, indicated to the Group that "CyberM Business", "CyberM Mobile", "CyberM Retail" and the "CyberM" trademarks are indistinctive and are therefore prima facie unacceptable for registration subject to the right of the Group to lodge appeals against the prima facie objections. The Group will review the prima facie objections of the Trade Marks Registry with its legal advisers and will file appeals within the statutory period allowed, being 6 months from the date of the letters of the Trade Marks Registry. However, there is no guarantee that such appeals or the application for registration will be successful or if successful, will not be subject to disclaimers or limitations. If the application for registration of such trademarks for the Group's products and services is ultimately not successful or is subject to any disclaimer or limitation, the use of such trademarks on its products and services will be affected and this may affect the Group's business since the goodwill associated with these trademarks cannot be fully utilised.

Even if the application for registration of such trademarks is successful, infringement of intellectual property rights by way of the sale of counterfeit and pirated software occurs frequently in Hong Kong and the PRC. Given the price difference between counterfeit products and authentic products, total eradication of trademark infringement is very difficult. The Group's profitability could be adversely affected if any of its trademark is significantly infringed.

Product risks

The business application solutions developed by the Group form key business processes of its customers. Any defect or error in these business application solutions could result in delayed or lost client revenues, adverse customer reaction towards the Group, negative publicity, additional expenditures to correct the problems and claims against the Group. The Group will include appropriate provisions in its contracts to limit its liabilities arising from any defect or error in its business application solutions. However, the contractual provisions may not protect the Group from all the liabilities for damages.

The Group has not taken out any insurance on product liability, any successful claim made against the Group could have a material adverse effect on the Group's business, operation and financial position.

Credit risks

The Group's sales are made principally on the bases of contract deposit account, open account and cash. For the two years ended 31st March, 2000, credit period offered to customers ranged from cash on delivery to 45 days.

The Directors believe that a well-defined credit policy and strict adherence to it are of great importance to the Group's working capital management. However there is no guarantee that such credit policy could fully eliminate the Group's credit risks, and the Group's financial position, particularly its working capital level, may be negatively influenced should the financial condition of any of the Group's trade debtor deteriorate.

For the part of the mobile B2B eBusiness solutions business conducted through ASPs, it is the usual practice that the Group will only be entitled to share the profit generated from the subscription after the ASPs have received in full the rental from the subscribers. Should the ASPs fail to collect the subscription fee from the subscribers or any of them, the Group's profit could be materially affected.

Decrease in SMEs

A significant portion of the Group's software customers are the SMEs in Hong Kong. With the development of the Internet, there will be more direct trades between suppliers and purchasers, so that middlemen will have thinner margins and some of them may be squeezed out of the market. Further, with the admission of China into the WTO, there will be more foreign enterprises establishing their own sales offices in China. Such moves will eliminate some middlemen. The Group has moved into the Internet working environment in order to capture a larger market share, so that any decrease in customer base can be compensated by the increase in market share captured by the Group. However, there is no guarantee that the increase in market share as envisaged by the Group can fully compensate the decrease in customer base and the Group's client base could be adversely affected.

Acceptance of the ASP market

The business plan of the Group and its main source of revenues are dependent on the anticipated expansion of B2B e-commerce and the ASP market in the Greater China Region. The Directors anticipate that a substantial portion of future revenues of the Group will be derived from the monthly rental of its CyberM Business Series and CyberM Mobile Series provided using ASP approach on the assumption that the SMEs in the Greater China Region will accept Internet-based B2B eBusiness solutions. ASP business is an unproven business in the Greater China Region and should the provision of Internet-based B2B eBusiness solutions using ASP approach fail to be accepted by the SMEs in the Greater China Region, the business and the profitability of the Group could be materially affected.

Quality of service of ASPs

As a mobile B2B eBusiness solutions provider using ASP approach, the Group will have to ensure that the on-line service offered by the ASP is secure and reliable, that there is no single point of failure, and that it can accommodate increasing network traffic. If the Group fails to resolve and adequately address these issues, the quality of service of the Group as a mobile B2B eBusiness solutions provider using ASP approach will suffer, and the business of the Group could be adversely affected.

The Directors expect that the Group's mobile B2B eBusiness solutions will be mainly hosted by ASPs and be available to the registered customers of such ASPs. The service agreement(s) with such ASPs normally do not specify a guaranteed minimum number of registered customers. If the marketing and promotion efforts of such ASPs are not effective or any of the service agreement(s) is terminated and the Group cannot find a suitable substitute of ASP, the business and profitability of the Group could be materially affected.

The development of B2B Enterprise Portal

One of the Group's business objectives is to develop B2B enterprise portal with the integration of its Internet-based B2B eBusiness solutions to provide all the necessary information to its customers and to generate advertising income in future. The success of the Group in implementing such revenue model will depend on the acceptance of the Internet as an effective and sustainable advertising medium, and whether the Group can successfully respond to the evolving e-commerce market and keep pace with the technological changes.

Also, by operating a portal, the Group may be held liable for information retrieved from its portal network, and there may be claims against the Group which may have an adverse effect on the Group's business and profitability.

Security risks of unauthorised access

A key factor contributing to the Group's success is its business application solutions which are developed through years of experience, further information on which is set out in the paragraph headed "Products and Services" in the section headed "General Overview of the Group" in this prospectus. The computer systems of ASPs on which the Group's business application solutions are to be hosted may be vulnerable to unauthorised access or security breaches by hackers, former or existing employees or other third parties which may result in misappropriation or unauthorised disclosure of the Group's proprietary technology. If this occurs, the Group's operations could be adversely affected.

Security of proprietary information

By delivering the CyberM Business Series via the Internet, it creates an uncertainty regarding the security of proprietary information. Sensitive proprietary information is placed on the Internet rendering it accessable to a vast audience, and especially to competing organisations and hackers. Should there be unauthorised access and detrimental viruses, the integrity and preservation of information may be seriously affected resulting in loss of client confidence, and the business of the Group could be adversely affected.

Dependence on a reliable Internet infrastructure, third party telecommunications and infrastructure system

A key component of the Group's mobile B2B eBusiness solutions business using ASP approach and the future development of a B2B enterprise portal is dependent upon a reliable Internet infrastructure that supports efficient data transmission and provides adequate security. Any breakdown in any component of the Internet infrastructure will adversely affect the Group's operations. For the mobile B2B eBusiness solutions business using ASP approach, the Group expects that the solutions will be mainly hosted by ASPs which provide Internet infrastructure. Should the ASPs fail to perform properly, the business and the profitability of the Group could be materially affected.

The Group is also dependent upon ISPs for the delivery and transmission of its content. Any failure or inadequacy which may or may not be related to the Group's own system that causes interruptions to the Group's services or increases the response time of services could reduce user satisfaction, future traffic and the attractiveness of the Group's website to advertisers and customers.

The Group's current backup systems may not effectively cater for damage from fire, floods, typhoon, earthquakes, power loss, telecommunications failures, break-in and similar events. If any of the foregoing occurs, the Group may suffer losses of capital investment and the future revenue streams of the Group could be adversely affected.

The Group's insurance coverage is limited

E-commerce activities pose unique risks, including unanswered legal and regulatory questions, some of which can be transferred by means of acquiring insurance whilst others have to be undertaken by the Group. With e-commerce being such a new industry, the insurance market may not be able to keep pace with the speed of change and the Group may not be able to obtain all the innovative portfolio of insurance products, which will be required to cover an array of risk exposures on commercially reasonable terms.

Any successful claim made against the Group which is not covered by the Group's insurance or is in excess of its insurance coverage could have a material adverse effect on the Group's business, operations and financial position.

Dependence on business and technical alliances

The Group plans to expand its business and enhance its R & D capabilities through partnership with leading IT companies and business partners. See the paragraph headed "Business & Technical Alliance" in the section headed "General Overview of the Group" in this prospectus. As a result, any deterioration in such relationship with any of these parties could have an adverse effect on the Group's business, results of operations and financial condition.

Expansion into new markets

As disclosed in the section headed "Statement of business objectives" in this prospectus, the Directors intend to expand the business of the Group to Taiwan and the PRC. As a result, the growth of the Group will be dependent on, among other things, whether the Group can analyse correctly the market conditions and adapt to the business environment of these untested markets, the economic conditions, the Internet environment and the development of the B2B model in those markets, and the successful consummation of the existing negotiations with potential local business partners. Depending on the exact arrangement pursuant to which the Group carries out its expansion plan, the Group may be exposed to withholding tax or other taxes imposed by the relevant authorities of those countries. Should the Group fail to adapt to the business environment of these markets, the economies of Taiwan and the PRC suffer any downturn, there is any political instability and fluctuations in currency exchange rates, or there are unexpected changes in regulatory requirements, or any of the business alliances turns out to be unsuccessful, the anticipated expansion will be affected and the business, profitability, and growth and development of the Group could be adversely affected.

Foreign exchange exposure

As disclosed in the section headed "Statement of business objectives" in this prospectus, the Directors intend to expand its business to Taiwan and the PRC. It is expected that part of the sales of the Group will be settled in foreign currencies such as Renminbi and New Taiwan dollars. Any depreciation of those foreign currencies against Hong Kong dollars could, accordingly, have an adverse impact on the performance and profitability of the Group.

Use of confidential information

The Group is in possession of confidential proprietary information of its customers, such as credit card numbers, customer profiles and transaction information. The Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) requires any person (a "data user") who controls the collection, holding, processing or use of data to comply with the data protection principles prescribed by the Ordinance. These principles govern the manner of collection, use and security of personal data. The Group may be considered as a data user when it collects information on the subscribers for its services and therefore be required to comply with the Ordinance. The Ordinance also prohibits the use of personal data by the data user for direct marketing purposes unless certain requirement shall be complied with. Any failure to comply with The Personal Data (Privacy) Ordinance may subject the Group to a fine, and the Group may also become liable to pay compensation to the individual who suffers damage by reason of the contravention of the said Ordinance by the Group.

Year 2000 compliance

The "Year 2000" issue arises from the fact that certain computer software and other automated systems are programmed to recognise calendar years using two digits rather than four. Any computer or automated system that is affected by the Year 2000 problem may recognise a date "00" as 1900 rather than 2000. Therefore the risk of incorrect date reading may lead to potential errors in calculation. The Group recognises that if the "Year 2000" issue remains unresolved, its internal computer system as well as that of its customers will encounter major system failures, hindering the normal operation of the Group and its customers.

Owing to the complexity of the "Year 2000" issue, there can be no assurance that the Group can eliminate the problems of "Year 2000", some of which may be unforeseeable. Currently, the Group does not have any insurance coverage regarding the "Year 2000" issue. Should the Group fail to address the "Year 2000" issue completely, liabilities may arise that could have a material adverse effect on the Group's operation and financial position.

RISKS RELATING TO THE INDUSTRY

Operating in a developing industry

The software services and Internet services industries are characterised by rapid technological changes, changes in consumer preferences, the frequent development and enhancement of services and products and new emerging industry standards. The introduction of services or products embodying new technologies and the emergence of new industry standards and practices can render existing services or products obsolete and unmarketable. The Group's future success will depend, in part, on its ability to: (1) develop new business application solutions by applying leading technologies; (2) enhance the Group's existing products and services; (3) develop new products and services that address the increasingly sophisticated and varied needs of prospective customers; and (4) respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

If the Group is unable to develop and introduce new, or to enhance existing, products or services in a timely manner in response to changing market conditions or customer requirements, the Group's business will be affected. The enhancement of existing, and the development of new, products and services entail significant technological risks. The Group cannot assure that it will be successful in effectively using new technologies, adapting its services and products to emerging industry standards, developing, introducing and marketing service and product enhancements, or new products and services, or that the Group will not experience difficulties that could delay or prevent the successful development or marketing of these services and products, or that any such new service and product enhancement will adequately meet the requirements of the marketplace and achieve market acceptance.

In addition, if any new products or services developed by the Group do not achieve market acceptance, the Group's business and profitability could be adversely affected.

The Group's demand for technical personnel may not be satisfied

The software industry is a skill-intensive industry. The sales and marketing, technical support as well as the R & D function of the Group require staff conversant with the relevant computer knowledge. Accordingly, the success of the Group's operations is reliant on the availability and continuity of the technical expertise and support. Should the Group fail to sustain and secure such expertise, its operations would be adversely affected. In addition, the cost of obtaining such expertise is expected to increase significantly in the foreseeable future which could adversely affect the profitability of the Group's business.

The legal framework with respect to the Internet and e-commerce in Hong Kong is developing

In Hong Kong, only a few pieces of legislation are directly applicable to the Internet and commercial on-line business. It is possible that the legislature may introduce new laws with respect to the business covering issues such as content, copyright, distribution and quality of services and products. Any enactment of any new laws or regulations may hinder, whether directly or indirectly, the growth of the business of the Group.

The introduction of any new laws and regulations or changes to any existing laws and regulations that make it more restrictive for the Group to operate and/or lead to an escalation of compliance costs would have an adverse impact on its business. If the business structure or operating system cannot be modified to conform to the then applicable law or practice or its interpretation, the Group may be unable to conduct the whole or some part of its business.

Internet regulations in the PRC

The Group's ability to develop its business in the PRC is affected by the laws of the PRC. Currently the PRC laws prohibits foreign companies from operating telecommunications business, including value-added telecommunication operations such as computer information service business. Internet content services could fall within the meaning of "computer information service business" under the guidelines issued by the Telecommunications Administration Bureau of Ministry of Post and Telecommunications, the predecessor of the Ministry of Information Industry of the PRC and could therefore be considered to be value-added telecommunication services, which are barred from foreign investment. In addition, the laws governing the PRC telecommunications industry are evolving, and the laws governing the PRC Internet industry remain undeveloped. There can be no assurance whether and to what extent PRC laws will allow the Group access to the PRC Internet market or, if access is permitted, how its laws will affect the Group's ability to penetrate the market.

Recently, the agreement between the PRC and the US on China's accession to the WTO is expected to allow foreign investors to own up to 49% of telecommunications and Internet companies, with ownership interest rising to 50% after 2 years. However, how this agreement is to be implemented remains to be seen and there is no guarantee whether and to what extent the Group can operate in the Internet and telecommunications business in the PRC.

Internet regulations in Taiwan

Taiwan has little legislation directly governing commercial Internet-related businesses. The government is currently drafting new legislation and revising existing legislation to govern and facilitate the development of commercial Internet-related businesses. Enactment and enforcement of this legislation could affect, directly or indirectly, the operations of the Group.

Taiwan classifies telecommunication operations into two types. Type I is basic carrier services, such as fixed line, mobile phone, and paging. Type II is all other telecommunications services, such as value-added telecommunication services. An ASP would be classified as a Type II telecommunications service provider. The Telecommunications Law and Administrative Regulations for Type II Telecommunication Business require Type II enterprises to be licenced. The Group, being a mobile B2B eBusiness solutions provider using ASP approach, may be subject to licencing requirement if the service is provided via the Internet. Any licencing requirement could affect the operation of the Group in Taiwan.

There are currently no restrictions on foreign investment (including Hong Kong) in subsidiaries or branches engaging in Type II services, provided, however, that foreign companies which have PRC ownership or shareholding are prohibited from investing in Taiwan legal entities. However, there can be no assurance that there will not be any restrictions in future and how such restrictions may affect the Group's business and operation.

RISKS RELATING TO HONG KONG

Political factors

The Group's assets and operations are currently located in Hong Kong. Hong Kong is a Special Administrative Region within the PRC with its own government, legislature, legal and judicial system. According to the Sino-British Joint Declaration of the Question of Hong Kong and the Basic Law of Hong Kong, Hong Kong enjoys a high degree of autonomy from the PRC under the principle of "one country, two systems" for 50 years from 1st July, 1997. However, there is no assurance that the PRC government will continue its autonomous policy with respect to the administration of Hong Kong.

Economic Factors

Towards the end of 1997, Hong Kong's economy was affected by the financial crises in Asia. Real estate and retail sales have declined and Hong Kong has slipped into a recession. There is no assurance that the Hong Kong economy will not worsen or that the historical currency peg of the Hong Kong dollar to the US dollar will be maintained. Continued recession in Hong Kong, deflation or the discontinuation of the historical currency peg could adversely affect the Group's business and profitability.

RISKS RELATING TO THE PRC

Economic environment and political structure of the PRC

The PRC has been a socialist country since 1949. Between 1949 and 1978 its economic activities were centrally planned. Since 1978, the PRC government has adopted policies which have led to significant economic and social progress. Many of these policies are unprecedented or experimental and are expected to be refined and adjusted from time to time. Political, economic and social considerations will also lead to changes in policy from time to time. There is no assurance that refinements and changes will always have a positive impact on the Group's business. The Group's business in the PRC will also be adversely affected by changes in the political, economic and social conditions of the PRC and also by changes in policy, in laws and regulations (or the interpretation thereof), the introduction of measures to control inflation, the imposition of taxes, levies and fees, and the imposition of restrictions on currency conversion and remittances abroad.

Following the confirmation of the "Open Door Policy" and the implementation of the "socialist market economy", the PRC government has encouraged substantial private economy and foreign investment and has lessened the control over the allocation of resources and productivity of the PRC economy. However, there can be no assurance that the PRC government will continue to pursue its current policy or that such policy will not be significantly altered.

Exchange risks

In the PRC, Renminbi is not freely convertible into foreign currencies nor remitted abroad. Since the introduction of the unified exchange rate system largely based on market supply and demand in 1994, movements in the exchange rate of the Renminbi against other currencies, such as US dollars, are to an extent subject to market forces. Despite such developments, the Renminbi is still not a freely convertible currency. In addition, there is no assurance that the Renminbi will not be subject to devaluation or depreciation due to administrative or legislative intervention by the PRC government or adverse market movements, or that shortages in the availability of foreign currencies will not develop. Accordingly, any volatility or shortages could have a material effect on the business and profitability of the Group. Should the Group not be able to obtain sufficient foreign currencies at acceptable rates, the Group's business and profitability may be materially affected.

RISKS RELATING TO TAIWAN

Political tension between the PRC and Taiwan

The Group plans to expand its business to Taiwan and a portion of its future revenue may be derived from the Taiwan market. Taiwan has a unique international political status with both Taiwan government and the PRC government asserting sovereignty over all of China, which include Taiwan, other outlying islands and all of mainland China. Although significant economic and cultural relations have been established in recent years between Taiwan and the PRC, the PRC has refused to renounce the possibility that it may use force to gain control over Taiwan to prevent the independence of Taiwan. Relations between Taiwan and the PRC have been strained in recent years especially after the presidential election in March 2000. Any worsening of relationship between Taiwan and the PRC could have material adverse effect on the business and profitability of the Group.

Economic condition of Taiwan

Since late 1997, the New Taiwan dollars has experienced considerable volatility and depreciation as a result of the economic downturn in Asia. Continued volatility and depreciation of the New Taiwan dollars may have a material effect on the business and profitability of the Group in future. Also, Taiwan has recently experienced a recession primarily due to a reduction in exports because of the weakened demand for imported goods in many Asian countries and a continued recession in Taiwan may materially affect the business of the Group.

RISKS RELATING TO INVESTING IN GEM

Your attention is drawn to the section headed "Characteristics of GEM" in this prospectus which sets out the inherent risks associated with investing in companies listed on GEM.