
RISK FACTORS

Potential investors should consider carefully all the information contained in this prospectus and, in particular, the following risks in connection with an investment in the Company.

RISKS RELATING TO THE COMPANY

Risks associated with the Company's investments

As an investment company, the Company will be principally investing in listed and unlisted securities of Greater China companies established or having substantial operation in the PRC. These investments are subject to market fluctuations and to the risks inherent in all investments. Investors should be aware that the Company's income may be adversely affected by external factors beyond the control of the Company. The income of the Company may go down as well as up, subject to, inter alia, the prevailing market conditions.

The nature of the investments which have been or may be made by the Company pursuant to the Company's investment objectives and policies requires consideration of a number of risk factors specific to such investments, including the following:

- The Company may invest in companies in the start-up phase of development or in the securities of smaller companies, which can involve greater risk than is customarily associated with investment in larger and more established companies. These companies will generally be without a significant operating history and may lack fully-developed product lines, experienced management or a proven market for their products. Their management may be dependent upon one or two key individuals and they can be more susceptible to losses and risk of insolvency. While investment in younger, less-established companies may present greater opportunities for growth, it also involves greater risk than is customarily associated with more established companies.
- A portion of the Company's assets may be invested in companies engaged in highly competitive industries dominated by corporations with substantially greater financial and technical resources than those in which the Company invests. Government policies or economic conditions that favour government-owned or monopolistic enterprises may be instituted at the expense of smaller companies.
- Although the Company will endeavour to invest in private companies which are thought to have the ability and the intention of creating a public market for their securities, such investments will be highly illiquid until such a public market is created, and there can be no assurance that the companies will in fact be able to effect a public offering for their securities. Even if the investee company does effect such an offering, the securities held by the Company may be subject to certain restrictions. Furthermore, as a consequence of the foregoing, some of the Company's assets may be difficult to value.
- As the Company also intends to make investments in companies at or near the phase preceding a public offering, the prices paid by the Company for its investments may be higher than those paid by earlier investors.

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Investments by the Company are subject to market risks and there can be no assurance that the Company's investment objectives will be realised.

Risks associated with the Investment Manager

Pursuant to the Interim Investment Management Agreement, the Company has appointed the Interim Investment Manager as its interim investment manager to provide it with interim investment management services pending the registration of the Investment Manager as an investment adviser under the Securities Ordinance. The Interim Investment Management Agreement commences on the date of commencement of trading of the Shares on the Stock Exchange and expires on the earlier of the date falling exactly six months from the date of commencement of trading of the Shares on the Stock Exchange or the seventh Business Day after receipt by the Interim Investment Manager from the Company of the notice of approval of the registration of the Investment Manager as an investment adviser under the Securities Ordinance. Application has been made by the Investment Manager to the Securities and Futures Commission in February 2002 for registration as an investment adviser under the Securities Ordinance and it is expected that the approval will be obtained in or about June 2002. Upon registration of the Investment Manager as an investment adviser as aforesaid and on the seventh Business Day after receipt by the Interim Investment Manager from the Company of the notice of approval for registration of the Investment Manager as an investment adviser under the Securities Ordinance, the Interim Investment Management Agreement will be terminated and the Investment Manager will replace the Interim Investment Manager to provide investment management services to the Company pursuant to the Investment Management Agreement.

The Investment Manager is a newly established company with no previous track record. Should it fail to obtain approval for registration as an investment adviser under the Securities Ordinance within six months from the date of commencement of trading of the Shares on the Stock Exchange, the Interim Investment Management Agreement will be extended for successive periods of 3 months. In the event the Investment Manager fails to register as an investment adviser under the Securities Ordinance within 12 months from the date of commencement of trading of the Shares on the Stock Exchange, the Investment Management Agreement, which is conditional upon, amongst other things, the registration of the Investment Manager as an investment adviser, shall terminate with immediate effect. In such event, the Company will appoint another investment manager to provide investment management services after the expiration of the Interim Investment Management Agreement. There is, however, no assurance that another investment manager can be appointed on terms acceptable by the Company after the termination of the Interim Investment Manager.

Risks associated with the fees payable to the Investment Manager, the Interim Investment Manager and the Custodian

The Company will pay certain fees to the Investment Manager, the Interim Investment Manager and the Custodian pursuant to the Investment Management Agreement, the Interim Investment Management Agreement and the Custodian Agreement respectively. As the investments made by the Company are subject to market fluctuations and to the risks inherent in all investments, there is no assurance that the Company will be able to generate sufficient income from its investments to cover all these fees and expenses incurred by the Company and the Company's profitability may be subsequently adversely affected.

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Illiquidity of investments in the PRC

The Company may invest in companies or enterprises established in the PRC and such investments will be of a medium term basis. The Company intends to realise capital gains from such investments by disposing of its interest in such companies or enterprises upon or after the listings of their securities, or selling its interests therein to its joint venture partners or to third parties subject to the approval of the relevant parties and government authorities. There is, however, no assurance that such capital gains can be realised or that the requisite approvals can be obtained. The Company's investments in the PRC may therefore be illiquid.

No prior market for the Shares

Unlike companies with core businesses, the Company may invest in a variety of companies engaging in different businesses. As such, there may not be any comparable securities available for reference as to the fair market value of the Shares. Furthermore, prior to the Share Offer, there has been no public market for the Shares. There is no assurance that an active trading market for the Shares will develop upon the listing of the Shares on the Stock Exchange.

Negotiated issue price

The Issue Price has been determined by negotiation between the Company and the Underwriters. In underwriting the Share Offer, the Underwriters have taken into consideration the condition of the stock market and the liquidity of the capital market, as well as the long term fair market price of the Shares. Nevertheless, the Issue Price may not be indicative of the future market price of the Shares after the listing of the Shares on the Stock Exchange.

No business track record

The Company has no business track record. The Company's future profit and value are reliant on the expertise of the Directors and the respective directors of the Interim Investment Manager and the Investment Manager and the performance of the investee companies.

Potential conflict of interests of the Interim Investment Manager and the Investment Manager

The Investment Manager, the Interim Investment Manager or other investment advisers as may be appointed by the Company from time to time may, in the course of their business, have potential conflict of interests in relation to the Company. For instance, associated companies or directors of the Investment Manager, the Interim Investment Manager or other investment advisers may act as underwriters for securities sold to the Company or provide investment management and/or advisory services to other clients (including other investment funds). The associated companies or the directors of the Investment Manager, the Interim Investment Manager or other investment advisers will be free to render services similar to those which it is providing to the Company and/or other clients (including other investment funds) so long as the services of the Investment Manager, the Interim Investment Manager or other investment advisers to the Company are not thereby impaired. Further, the

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associated companies or the directors of the Investment Manager, the Interim Investment Manager or other investment advisers may receive commission, brokerage and other charges in relation to the sale or purchase of any investment by the Company. The Investment Manager and the Interim Investment Manager are currently not managing any other funds or investment companies.

Potential investors should refer to the paragraph headed “Potential conflict of interests” under the section headed “Investment management” on pages 48 to 49 of this prospectus for further information in relation to potential conflict of interests of the Investment Manager, the Interim Investment Manager or other investment advisers as may be appointed by the Company from time to time.

Lack of majority control over investee companies

Under the Listing Rules, the Company, being a listed investment company, is precluded from investing in more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body. All investments to be made by the Company will therefore be passive in nature and the Company will not be able to exert any statutory control over the relevant investee companies.

No comparable market values of the shares of the investee companies

As the Company may invest in unlisted companies, comparable market values of the shares of the investee companies may not be available. The Directors, the Interim Investment Manager or the Investment Manager (as the case may be) will make reference to, if available, the latest financial information of such companies and the industrial statistics of the relevant businesses and to a large extent, the Company has to rely on the judgment and experience of its Directors, the Interim Investment Manager or the Investment Manager (as the case may be) in assessing the values of the investee companies to determine the basis of consideration for such acquisitions or disposal (as the case may be) and there can be no assurance that the assessment of the Directors, the Interim Investment Manager or the Investment Manager will prove accurate.

Possibility of the existence of a substantial shareholder upon completion of the Share Offer

The Directors are not aware of any person or entity who, immediately following the completion of the Share Offer (assuming the Over-allotment Option is not exercised), will be interested in Shares representing 10% or more of the share capital of the Company. Nevertheless, there were only 3,000,000 Shares in issue at the Latest Practicable Date and 100,000,000 new Shares (assuming that the Over-allotment Option is not exercised) will be issued pursuant to the Share Offer, there might be a possibility that an applicant will be allotted 10% or more of the then issued share capital of the Company and becomes a substantial shareholder of the Company. As such, the percentage shareholding in the Company held by public will be reduced.

RISKS RELATING TO HONG KONG

Economic, political and legal developments

Part of the Company’s investments may be made in Hong Kong. Accordingly, the Company’s operational results, financial position and prospects could be affected by economic, political and legal

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developments in Hong Kong. From 1st July, 1997, Hong Kong became a Special Administrative Region of the PRC when the PRC resumed the exercise of sovereignty over Hong Kong. The basic policies of the PRC regarding Hong Kong are embodied in the Basic Law, which was adopted by the National People's Congress of the PRC on 4th April, 1990 and came into effect on 1st July, 1997. The Basic Law provides that Hong Kong shall have a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of the Basic Law. Under the principle of "one country, two systems", the socialist system and policies shall not be practised in Hong Kong, and the previous capitalist system and way of life shall remain unchanged for a period of fifty years. However, there is no assurance that economic, political and legal developments in Hong Kong will not adversely affect the Company's operations and financial position.

Devaluation of the Hong Kong dollar

The Hong Kong dollar has been pegged to the United States dollar at the rate of approximately HK\$7.80 to US\$1.00 since 17th October, 1983. The Government has repeatedly reaffirmed its commitment to this pegged exchange rate system. However, in the event that this policy were to be changed, there would be a risk that the Hong Kong dollar would be devalued, which would increase the Hong Kong dollar cost of the Company's foreign currency capital expenditures.

Risk relating to wars and terrorism

It is possible that the terrorist attacks in the US in September 2001 may have political and/or economic adverse impact on the Greater China. There can be no assurance that there will not be any terrorist attacks which could have direct or indirect effect on the Greater China and the corresponding political and/or economic effects arising therefrom, if any, may in turn adversely affect the operation and profitability of the Company.

RISKS RELATING TO THE PRC

Political and economic considerations

Historically, the economy of the PRC was centrally planned and the PRC government was responsible for formulating annual and five-year plans for the whole country which set forth economic targets. Since 1978, the PRC government has adopted various policies which have led to increased economic growth and social progress in the PRC. Many of these policies are unprecedented or experimental and are expected to be refined and adjusted from time to time. Other political, economic and social considerations may also lead to further changes to such policies. Although the Board believes that the refinement or adjustment of such policies will be beneficial to the investments of the Company in the PRC, there is no assurance that such refinement or adjustment process will always have a positive impact on the Company's investments. The Company's investments in the PRC may also be adversely affected by changes in the political, economic and social conditions in the PRC and also by changes in the policies of the PRC government such as changes in the 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.

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Government control of currency conversion and exchange rate risks

Renminbi is not freely convertible to foreign currencies in the PRC. In accordance with “Foreign Exchange Control Regulations” (外匯管理條例) and the “Regulations on the Administration on Settlement, Sale and Payment of Foreign Exchange” (結匯、售匯及付匯管理規定), FIEs are allowed to convert Renminbi to foreign currencies in their foreign currency accounts or by the banks authorised to conduct foreign exchange transactions, for repatriation and distribution of its profits or dividends to foreign investors. FIEs are authorised to convert Renminbi to foreign currencies in respect of current account items (including payment of dividend and profit to the foreign investors). The conversion of Renminbi to foreign currencies in respect of capital account items (including direct investment, loan, guarantee investment) is still under government control.

Since 1994, the conversion of Renminbi into Hong Kong and United States dollars has been based on rates set by the People’s Bank of China, which are set daily based on the previous day’s PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the Renminbi to Hong Kong dollar exchange rate has been relatively stable since 1995, the Company cannot predict nor give any assurance of its future stability.

The value of the Renminbi is subject to changes in the PRC government policies and to international economic and political developments. A substantial devaluation of the Renminbi against the US dollar occurred in January, 1994 in connection with the adoption of the new unitary managed floating rate exchange system. Since 1994, the official exchange rate for the conversion of the Renminbi to the US dollar generally has been stable. However, there can be no assurance that the Renminbi will not become volatile against other currencies, including Hong Kong dollar. Devaluation of the Renminbi would adversely affect the value, when converted from Renminbi into Hong Kong dollars, of any dividends, distribution of profits or capital gains that may be received or derived by the Company from its investments in the PRC.

FIEs are required to conduct all their foreign exchange transactions through authorized banks and open a current account and a capital account with such banks. SAFE has the authority to determine the maximum amount of foreign exchange a FIE may maintain in its current account in accordance with its paid-up capital and its needs for foreign exchange working capital funds under current account items on a day-to-day basis. Any foreign currency income in the current account exceeding such maximum limit shall be sold to authorized banks. The Company may invest in FIEs to which the above-mentioned rules and regulations are applicable. There is no assurance that such rules and regulations will not change in the future, in which event, it may affect the Company’s exposure to foreign exchange resources.

Legal and regulatory considerations

Since 1979, many laws and regulations governing economic matters have been promulgated in the PRC. However, the interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of PRC laws may be uncertain and sporadic. It may also be difficult to enforce a foreign judgement in the PRC.

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Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or the refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People's Congress amended the constitution to authorise foreign investment, has been to enhance significantly the protection afforded to FIEs in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse impact upon the investments of the Company in the PRC.

Accounting, auditing and financial reporting standards

Accounting, auditing and financial reporting standards in the PRC are different from and not equivalent to those applicable to Hong Kong companies. Less audited information will therefore be available to the Company in relation to investments in the PRC than if it were to invest in Hong Kong. Notable differences are found in areas such as provision for inventory obsolescence, preparation of consolidated accounts, valuation of properties and other assets, accounting for depreciation, deferred taxation and contingencies and treatment of exchange differences. There is less publicly available information about the PRC companies than there is about Hong Kong companies.

PRC securities markets

The Company may invest in the PRC securities markets. The PRC securities markets are undergoing a period of growth and change which may lead to price volatility, illiquidity and difficulties in the settlement and recording of transactions. In addition, given that the climate of the PRC securities markets is volatile, it is uncertain whether, how and to what extent the Company will be able to realise part or all of its investments in investee companies that it assists to list on the PRC securities markets.

PRC's accession to the World Trade Organisation

With PRC's accession to the World Trade Organisation on 1st January, 2002 and the gradual opening of the PRC market, the PRC incorporated companies in which the Company may invest in, may face increased competition, which in turn may have an adverse effect on the Company's investments.