

## RISK FACTORS

*Investment in the Placing involves high risks and speculation. Before making any investment decisions in relation to the Company, prospective investors should carefully consider all information contained in this prospectus, in particular the following risk factors and special considerations associated with investing in the Company. It is possible that damage to the Company's business, financial position and operating results may arise from other risk factors and uncertainties that the Company is unaware of, or investment factors that the Company considers insignificant at present.*

### RISKS RELATING TO THE GROUP

#### **Turnover and profit sustainability**

The Group has undergone rapid expansion since the Group's commencement of operation in early 2000, details of the Group's history have been stated in the section headed "History and Development and Statement of Active Business Pursuits" of this prospectus. Accordingly, the Group has a limited operating history in the provision of CRM outsourcing services under its current structure and has experienced significant fluctuation in net profit during the past few years. Although the Group recorded high growth in both the turnover and net profit during the Track Record Period by recording turnover of approximately HK\$83.43 million, HK\$149.86 million and HK\$74.92 million respectively and net profit of approximately HK\$1.74 million, HK\$36.67 million and HK\$16.82 million respectively for the two years ended 31 December 2006 and the five months ended 31 May 2007, the sustainability of the Group's turnover and net profit will depend upon the ability of the Group to maintain its competitiveness in the market and to produce high quality services. There is no assurance that the Group will be able to maintain its growth at current level in coming years and in such event, the Group's performance may be adversely affected by any decrease in turnover and profit.

#### **Reliance on major customers**

The Group derives a significant portion of its turnover from the provision of services to a certain number of its key customers.

During the Track Record Period, the Group's sales to its top five customers on group basis accounted for approximately 95.20%, 99.33% and 95.36% respectively of the Group's total turnover for the two years ended 31 December 2006 and the five months ended 31 May 2007. Besides, approximately 54.26%, 69.81% and 71.12% respectively of the Group's total turnover for the two years ended 31 December 2006 and the five months ended 31 May 2007 were derived from the Group's largest customer group.

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In addition, some of the contracts entered into between certain of the major customers and the Group contain an exclusive clause restricting the provision of the Group's services to any companies which undertake competing business with those major customers in Hong Kong and Macau, unless (i) prior written consent has been given by those major customers or (ii) those competitors were existing customers of the Group at the time when the Group entered into contracts with those major customers. A brief summary of the restrictive clauses are set out below.

<u>Customer</u>	<u>Restriction</u>	<u>Duration</u>
Hutchison Telecommunications	The Group has undertaken not to enter into any contract, arrangement or understanding with any mobile network operator, mobile virtual network operator or any other mobile telecommunications service provider in Hong Kong or Macau for the provision of same or similar services which are provided to Hutchison Telecommunications during the duration of the agreement, except for customers which have been disclosed to Hutchison Telecommunications or prior written consent has been given.	5 years from the date of commencement of the agreement i.e. 8 April 2005 (the "Initial Term") plus automatic extension of 5 years following the expiry of the Initial Term, unless terminated in accordance with the relevant provisions of the agreement
Hutchison Global	The Group has undertaken not to enter into any contract, arrangement or understanding with any fixed network operator or any other fixed telecommunications service provider in Hong Kong or Macau for the provision of the same or similar services which are provided to Hutchison Global during the duration of the agreement, except for customers which have been disclosed to Hutchison Global or prior written consent has been given.	5 years from the date of commencement of the agreement i.e. 30 April 2005 (the "Initial Term") plus automatic extension of 5 years following the expiry of the Initial Term, unless terminated in accordance with the relevant provisions of the agreement

The Group had disclosed to Hutchison Telecommunications and Hutchison Global the list of competitors that the Group had been providing services to prior to the signing of the above contracts and it is also acknowledged by Hutchison Telecommunications and Hutchison Global that provision of services to those competitors is not a violation of the above stated restrictions. Therefore it is not necessary for the Group to obtain consent from Hutchison Telecommunications and Hutchison Global in respect of provision of services to the customers as disclosed in the said list of competitors.

Such restrictive clause will affect and restrict the Group's expansion plan in the CRM outsourcing business and acquisition of potential customers that are telecommunications operators in Hong Kong and Macau.

The Group is actively seeking business opportunities with new customers, both in telecommunications and non-telecommunications sectors as well as maintaining good relationships with its existing customers. However, the Directors anticipate that the Group will continue to derive a significant portion of its turnover from the top five customers of the Group. The Group's business, results of operations and financial position may be adversely affected should such key customers cease their business relationships with the Group.

### **Reliance on the telecommunications industry and outsourcing policies of customers**

The Group currently derives a substantial portion of its turnover from telecommunications service providers in Hong Kong, Macau and the PRC. For the two years ended 31 December 2006 and

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the five months ended 31 May 2007, the Group derived a total of approximately 96.14%, 99.60% and 95.35% respectively of its turnover from its customers in the telecommunications industry. Demand for the services of the Group depends on the level of activities in the telecommunications industry in Hong Kong, Macau and the PRC and market competition. As part of its strategic development, the Group intends to gradually extend its business operations to provision of CRM services to non-telecommunications companies. As such, the Directors believe that the Group's reliance on the telecommunications industry will decrease accordingly.

Any trend towards an increase in competition in the telecommunications industry in Hong Kong, Macau and the PRC, particularly amongst the telecommunications service providers which are the Group's customers, may put downward pressure on prices for their products and services, and consequently on their turnover. Should this happen, these telecommunications service providers may attempt to maintain their profit margins by reducing their costs, including the CRM outsourcing fee they are willing to pay to the Group.

### **The Group may not be successful in expanding the Group's business into non-telecommunications industries**

During the Track Record Period, the majority of the Group's turnover was generated from customers in the telecommunications industry, which accounted for approximately 96.14% in 2005, 99.60% in 2006 and 95.35% in the five months ended 31 May 2007 of the total turnover of the Group respectively. As part of its strategic development, the Group is contemplating expansion of its business into other industries. However, expansion into the non-telecommunications market may involve substantial time, cost and market uncertainty. In the event that the Group encounters problems or delays in penetrating such markets, the operations and prospects of the Group could be adversely affected.

### **The network of the Group may experience unexpected interruption or inadequacy**

The Group's operational systems utilised by the CRM service centres are vulnerable to damage from fire, flood, power loss, telecommunications failures, computer virus, hackings and similar events. Any network interruption or inadequacy that causes interruptions in the connectivity of the system of the Group or deterioration in the quality of access to the system of the Group or failure to maintain the network and server or failure to solve such problems quickly could reduce the Group's customers' satisfaction. In addition, any security breach caused by hackings, which involve efforts to gain unauthorised access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on the business, financial condition and results of operations. The Group maintains insurance policies covering losses relating to the systems of the Group and does not have business interruption insurance.

### **Reliance on key management**

To a significant extent, the Group's success depends on the experience, expertise and the continuous services of the Group's executive Directors, namely, Mr. Li Kin Shing, Ms. Kwok King Wa, Ms. Li Yin, Mr. Wong Kin Wa and Mr. Li Wen. For details in relation to the executive Directors, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus.

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The Group's performance also depends on its ability to retain and motivate its key officers and employees as named in the paragraph headed "Senior Management" under the section headed "Directors, Senior Management and Staff" of this prospectus. However, there is no assurance that the Group will be able to retain the continuous services of the executive Directors and the members of the senior management. If the Group is unable to retain their services, the operations of the Group may be adversely affected, if for any reason, replacement cannot be found in a timely and commercially viable manner.

### **Failure to recruit and retain competent employees**

The Directors believe that an integral part of its success relies on its ability to recruit and retain employees who have advanced skills in the services that the Group provides. In particular, the Group must hire and retain employees with the expertise and knowledge of the industry to maintain and continue to develop the Group's operations. The Group succeeded in recruiting competent employees during the Track Record Period. Nevertheless, there can be no assurance that the Group will be able to recruit and/or retain suitable employees in the future.

### **Failure of system infrastructure**

The stability of the Group's services are dependent upon the Group's ability to protect its system infrastructure and equipment against damage from human error, fire, earthquakes, floods, power loss, telecommunications failure, sabotage, hackers and similar events. Any damage to or failure of the systems of the Group could result in interruptions in, or termination of the services provided for the Group's customers, which could have a material adverse effect on the Group's business, operation results and financial conditions. In addition, the Group's reputation could be materially affected.

### **Potential service liabilities**

The Group's services may be critical to the operations of its customers' businesses. If the Group provides wrong information in delivering its services which subsequently adversely affect any of the Group's customers' businesses, the Group may incur additional costs in rectifying such errors or defending any legal proceedings and claims brought by its customers against the Group. Consequently, this may affect the Group's relationship with such customers and may result in negative publicity of the Group. The Group has no insurance cover on its service liabilities. Any defects or errors in the Group's services could result in delayed or lost turnover, adverse customer relationship, negative publicity and additional costs.

### **Infringement or misappropriation of intellectual property rights**

The Group heavily relies on the operating systems in its daily operations which are developed by the Group's research and development department. Details of the operating systems are set out in the sub-section headed "Research and Development" under the "Business" section of this prospectus. However, the Group has not applied for registration of any intellectual property rights in the PRC, in respect of these operation systems. The Group only relies on non-disclosure of confidential information agreements provided by the Group's research and development personnel to protect the Group's intellectual property rights on the operating systems currently in use. There is no assurance that the current protection measures adopted by the Group provides adequate protection against infringement of any intellectual property rights attributable to the Group. Any unauthorised use, infringement or misappropriation of such rights by third parties may adversely affect the Group's business.

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### **Inadequate protection of personal data**

The Group, acting as a CRM outsourcing service provider, obtains a significant amount of personal data from its customers, in particular, personal data of subscribers of the Group's telecommunications customers. Pursuant to contracts entered into between the Group and its customers and in compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the Group is obliged to keep all such data confidential. In the event that there is a breach of confidentiality by the Group and data is leaked to third parties, the subscribers may take legal action against the Group's customers for loss and/or damages. In addition, the Group's customers may exercise their rights under the contract to terminate the contract and proceed to institute legal proceedings to claim damages for any loss sustained as a result of the Group's breach. Further, the contracts entered into by the Group with its customers contain general indemnity clauses which cover amongst others, such circumstances.

The Group has implemented internal control procedures to safeguard confidential data, including (1) restricted physical access to the designated working areas; (2) prohibited use of information storage devices; and (3) non-disclosure and confidentiality agreements with the Group's employees. However, there is no assurance that there will not be any leakage of personal data that may adversely affect the Group's business and reputation.

Should legal action be taken against the Group's customers, they will in turn be indemnified by the Group, pursuant to the contracts entered into between them. Given the large number of subscribers, should the subscribers of the Group's customers take action against the Group's customers, this could materially adversely affect the Group's reputation and business relations with its customers, which would in turn impact on its business operations and turnover.

### **The Effect of the UEMO on the Group's business**

The UEMO was enacted in Hong Kong in May 2007 and shall come into force in two phases, with phase I commencing on 1 June 2007 and Phase II on a date to be decided by the Secretary for Commerce, Industry and Technology of Hong Kong and the date of which will be notified and published in the government gazette.

The UEMO governs the sending of commercial electronic messages which, for the purposes of the UEMO, include a message in any form sent over a public telecommunications service (including among others, SMS, faxes or emails) to an electronic address and includes but is not limited to a text, voice, sound, image or video message; and a message combining text, voice, sound, image or video for the purpose of advertising, promoting or offering any goods, services, business opportunities or the organizations themselves. The UEMO also governs the use of address harvesting software i.e. software which is specifically designed or marketed for use for searching the Internet or a public telecommunications network and collecting electronic addresses such as telephone numbers or email addresses in connection with or to facilitate the sending of such commercial electronic messages. The UEMO does not apply to person-to-person telemarketing calls.

The Group's current business does not involve the sending of commercial electronic messages and the Group does not use any address harvesting software. Therefore the Group's business activities are not under the scope of the UEMO. For details of the Group's existing business and systems used in its daily operations, please refer to the paragraphs headed "Services" and "Research and Development" in the section headed "Business" of this prospectus.

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Based on the Group's current business activities, the enactment of the UEMO will not impact on the Group's business. However, there can be no assurance that the Group's future business activities will not fall under the scope of the UEMO. Should this happen, the Group's operations may be adversely affected by the costs and time involved in ensuring that the Group's activities comply with the UEMO. In addition, should the Group fail to comply with the UEMO, it may be liable for fines up to HK\$100,000 for a first conviction and a fine of HK\$500,000 for subsequent convictions. This may adversely affect the business, results of operation and financial position of the Group.

### **The tax obligations of the Group may be subject to changes in the PRC laws or policies**

On 16 March 2007, the National People's Congress of the PRC adopted a new enterprise income tax law that imposes a single uniform income tax rate of 25% on most domestic enterprises and foreign-invested enterprises. This new law will be effective as of 1 January 2008. It contemplates various transition periods and measures for existing preferential tax policies, including a grace period for as long as five years for foreign-invested enterprises which are currently entitled to a lower income tax rate and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. High-technology enterprises supported by the PRC government may be eligible for a lower income tax rate of 15%. In addition, the new law deems an enterprise established offshore but having its management organ in the PRC as a "resident enterprise" which will be subject to PRC tax on its global income. The term "management organ" has not yet been defined by the PRC government. The new enterprise income tax law empowers the State Council of the PRC to enact appropriate implementing rules and regulations. The implementation of the new law and its implementation rules which may be issued by the State Council may eliminate or significantly shorten the period in which the Group enjoys preferential tax treatment or treat the Company or any of its subsidiaries outside the PRC as a resident enterprise under the new enterprise income tax law, which would adversely affect the financial condition and results of operations of the Group. Moreover, the historical operating results of the Group may not be indicative of the operating results of the Group for future periods as a result of changes in applicable tax laws. Any significant increase in the income tax liability of the Group in the future could have a material adverse effect on the financial condition and operating results of the Group.

### **Uncertainties in implementing the contractual arrangements between the Group and customers in PRC**

As at the Latest Practicable Date, the Group has entered into various service agreements with customers in the PRC, including China Unicom Guangdong. These contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these agreements would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If the PRC customers fails to perform its obligations under these contractual arrangements, the Group may have to rely on legal remedies under the PRC law, including seeking injunctive relief, and claiming damages. There can be no assurance that these relief would be effective.

The legal environment in the PRC may not be, however, as mature as in certain other jurisdictions. As a result, uncertainties in the PRC legal system could limit the ability of the Group to enforce these contractual arrangements.

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### **Foreign exchange rate risk**

The Group is exposed to foreign exchange rate risk as the Group's operating expenditures are principally denominated in RMB and HK dollars but sales are principally conducted in HK dollars, RMB and US dollars. Currently, the Group has not made any arrangements to hedge against the exchange rate risk involved in the Group's operation. Accordingly, exchange rate fluctuations in the trading currencies of the Group's sales and purchases may have a material adverse impact on the business, financial condition, profitability and operations of the Group.

Since 1994, the conversion of Renminbi into foreign currencies, including HK dollars and US dollars, has been based on exchange rates set by the PBOC. The PBOC sets the exchange rates daily based on the previous day's interbank foreign exchange market rates in the PRC and the current exchange rates in the financial markets. Since then, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable as it is pegged against the US dollars. On 21 July 2005, China changed its currency policy. China abandoned the peg of Renminbi against US dollars in favour of a managed float of the Renminbi based on market demand and supply with reference to a basket of currencies and their weightings. As a result, the Renminbi appreciated slightly following this change in currency policy. As the exchange rate of Renminbi is allowed to move in a managed way, there can be no assurance that the Renminbi will not further appreciate or that other measures will not be introduced to address the concerns of China's trading partners. There is also no assurance that such exchange rate will continue to remain stable in the future. Since a substantial amount of the Group's expenditures are denominated in Renminbi, any appreciation of Renminbi may subject the Group to increased costs, and any devaluation of Renminbi may adversely affect the value of its net assets, earnings and the value of dividends, if any, payable on the Shares in HK dollars.

### **Failure to achieve business objectives**

The business objectives as set out in this prospectus are based on the existing plans and intentions of the Group which are at the initial stages. These plans and intentions are subject to risks and uncertainties inherent in various stages of development. The formulation of such plans and objectives are based on the assumptions as to the occurrence of future events (including but not limited to no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in the PRC, no material changes in the bases or rates of taxation in the PRC, no significant changes in the Group's business relationship with its existing customers and suppliers), which may or may not happen. There is no assurance that the future plans of the Group will materialize, or conclude in accordance with the pre-determined timeframe, or that the objectives of the Group will be fully or partially accomplished. The Group's business, operation results and financial positions may be adversely affected in the event that the Group's future plans do not materialise and its business objectives are not achieved.

### **Failure to contribute to housing fund**

Pursuant to (1) the "Housing Fund Management Regulation (住房公積金管理條例)" issued by the State Council of the PRC in April 1999 and subsequently amended in March 2002; and (2) the "Additional Regulation on Housing Fund Management (關於進一步加強住房公積金管理的若干規定)" issued by Guangzhou Housing Fund Management Committee in February 2007, both the employers and their employees are required to make contributions to a government administered housing fund. However, as the staff turnover of China Elite was high, it would have incurred high administrative cost and time to both China Elite and its employees to arrange housing fund registration and contribution

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for each employee. Therefore, prior to July 2006, instead of making contribution directly to the housing fund, employees were more willing to receive the Group's contribution in cash by way of housing allowance as part of their employee's salary package and the Group failed to contribute to a government administered housing fund as required by the relevant local and national requirements for housing fund. The amount paid by the Group under such housing allowance was equivalent to the amount of the Group's liability under the housing fund scheme and amounted to approximately RMB8.6 million. In 2006, as both the national and local relevant government authorities strengthened their regulation on the housing fund, China Elite has started to make the required contributions directly to the housing fund instead of paying housing allowance to its staff since July 2006.

Should the Group's employees wish to claim the housing fund from the PRC government for the amount prior to July 2006, they need to repay the housing allowances they received from the Group to the PRC government as the employer's portion of contribution. There can be no assurance that the Group's employees will not make a claim for the housing fund from the PRC government. In the event that the Group is adjudged liable for failure to contribute to the housing fund, a fine ranging from RMB10,000 to RMB50,000 may be levied on the Group.

Each of the Initial Management Shareholders has agreed to provide indemnities to cover any claims in respect of the non-payment of the housing fund together with the potential fine as required by relevant PRC laws and regulations.

The Group's PRC legal advisers are of the opinion that despite failing to make contributions directly to the government administered housing fund, the Group has paid housing allowances of an equivalent amount to its employees. Further, the Group has since July 2006 complied with the applicable PRC laws and regulations by making the required contributions and it is practically impossible to make housing fund contribution for employees who have resigned. However, a fine ranging from RMB10,000 to RMB50,000 will be payable by the Group if the Group is adjudged liable for failure to contribute to the housing fund by relevant PRC government authorities.

### **Some lessors of the Group do not possess valid title to certain of the Group's leased properties**

As at the Latest Practicable Date, there was no defect in the title documents of the Group's leased properties except property numbered 3 as stated in the property valuation report, which is contained in Appendix IV to this prospectus. The landlord of that property does not own the real estate title certificate thereof. There is no assurance that the lessor is the rightful owner of the leased property. Each of the Initial Management Shareholders has agreed to provide indemnities to cover any loss that may arise from the invalidity of the title of the abovementioned property. If there is any invalidity of such tenancy agreement which results in relocation, the Group's operations in this premise might be temporarily adversely affected.

### **Some of the leases of the Group in the PRC have not been properly registered**

In respect of the leases entered into by the Group with their lessors for the Group's leased properties, leases for properties numbered 2 to 4 in the property valuation report annexed as Appendix IV to this prospectus have not been properly registered by the lessors with the relevant PRC authorities as required under the PRC laws and regulations as at the Latest Practicable Date. Each of the Initial Management Shareholders has agreed to provide indemnities in favour of the Company in relation to any claims or losses arising from the non-registration of the leases. If the Group's right to occupy the properties comes into question, the Group may need to relocate elsewhere and the Group's operations in the premise concerned might be temporarily adversely affected.



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### **Failure to contribute to social insurance**

Pursuant to the applicable national laws and regulations namely “PRC Labour Law (中華人民共和國勞動法)” and “Provisional Regulation of the Collection of PRC Social Insurance (中華人民共和國社會保險徵繳暫行條例)” and local regulation namely “Social Security Annual Audit Guidance (勞動保障年審指南)” issued by the Labour and Social Security Department of the Government of Guangdong Province, companies are required to provide their employees with social insurance by paying social insurance premiums to the relevant administrative authority of the PRC Ministry of Labour and Social Security. An employer who fails to pay social insurance premiums may be ordered by the PRC Ministry of Labour and Social Security or the PRC Tax Bureau to make such payments within a stipulated time and in addition to such payments, may be liable to pay 0.2% of the outstanding payment per day, as a fine for late payment. The late payment fine is to be calculated from the date when the payment had become overdue.

Due to the rapid turnover of the Group’s employees, prior to 31 December 2006 the Group had inadvertently omitted to pay social insurance premiums as required by applicable national and local laws and regulations for some of the Group’s employees, namely its part-time employees and employees who were on probation. When the employees became permanent staff of the Group, the Group would immediately arrange social insurance contribution for them. On the other hand, as part-time employees were usually recruited for short-term projects, the number of part-time employees per month was approximately 40 for the two years ended 31 December 2006. The total potential exposures in this respect was approximately HK\$1.3 million for the two years ended 31 December 2006, all of which was related to employees who have left the Group and it is virtually impossible for the Group to pay the outstanding social insurance premiums to them.

According to the applicable laws, regulations and rules in the PRC, employees can only make claims against the Group within two years from the time they know or ought to know that their rights had been infringed. As advised by the legal advisers to the Company (as to the PRC law), the date for a person to know his/her entitled rights and benefits have been infringed is 1) the date when the person has the evidence to prove that his/her entitled rights and benefits have been infringed; or 2) the date deduced by general rules that the person should have known that his/her entitled rights and benefits have been infringed. Regarding labour disputes, the date is generally interpreted as the date when the dispute occurs. Regarding social insurance claim, an employee may argue that he/she does not know that his/her rights and benefits have been infringed during the employment period. However, the latest date for an employee to clearly know his/her entitled rights and benefits in a company should be the date when he/she resigns. Therefore, if an employee claims that he/she only knows that his/her entitled rights and benefits in a company has been infringed after he/she has been resigned, the latest date of commencement of the two-year period that the employee can make claim against the Group should be the date when the employee resigns. As the outstanding social insurance premiums are all related to employees who have left the Group on or before 31 December 2006, the Directors are of the view that the Group’s liability to repay outstanding social insurance premiums to its previous employees will probably cease after 31 December 2008. The Directors are further of the view that as the chance for the Group of repaying the social insurance premiums to its previous employees is slim, no provision is made to the consolidated income statement of the Group in respect of the Group’s liability to make social insurance premiums contribution.

Each of the Initial Management Shareholders has agreed to provide indemnities to cover any claims which may be brought against the Group by the part-time employees and employees under probation in respect of the Group’s failures to enroll them in social insurance program as required by relevant PRC laws and regulations.

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The Group has since 1 January 2007 taken out social insurance for all of its employees, including part-time employees and employees under probation, and has complied with the PRC laws and regulations relating to social insurance schemes and has timely paid social insurance premiums. As at the Latest Practicable Date, the Directors are not aware of any complaints and/or claims made by the Group's former employees against the Group in respect of social insurance. There is no assurance that the Group's former employees will not make a claim against the Group in the future after making due inquiry with the Guangzhou Social Security Fund Management Centre (廣州市社會保險基金管理中心) and the Group's results will be affected in case such claims arise.

### **The Group may not be able to pay dividends in accordance with the proposed dividend policy**

No dividends have been paid or declared by the Company during the Track Record Period. Whilst the Company intends to make dividend payments in the future, the amount of dividends to be declared will be subject to, among other things, the full discretion of the Directors, taking into consideration the amount of earnings, financial position, cash requirements and availability, the provisions of applicable laws and regulations and other relevant factors. The dividend distribution record during the Track Record Period may not be used as reference or basis to determine the level of dividends that may be declared by the Company in the future.

### **The Group may be exposed to third party liabilities arising from claims due to the nature of service and content of the information delivered by the Group in its daily operations**

As a CRM outsourcing service provider, the Group may face liability for negligence, misrepresentation and other claims based on the nature of service and content of the information delivered through the Group's services.

The Group could also be subject to claims based upon unauthorised use of personal data, negligence and misrepresentation during the provision of inbound customer service enquiry hotlines and telesales. By acting as an agent of the Group's customers, the Group may be held liable for misrepresentation or negligence. Third parties could assert claims against the Group for losses incurred in reliance on any erroneous information distributed by the Group. The Group may incur significant costs in investigating and defending the Group against these claims, even if they do not result in liability. These claims could have a material and adverse effect on the Group's business.

### **The Group's transfer pricing arrangements may be challenged**

Transfer pricing refers to the prices that one member of a group of affiliated corporations charges to another member of the group for goods, services or the use of intellectual property. If two or more affiliated corporations are located in different countries or territories, the laws or regulations of each country or territory generally will require that transfer prices be the same as those charged by unrelated corporations dealing with each other at arm's length. If one or more of the countries or territories in which the affiliated corporations are located believe(s) that transfer prices were manipulated by the affiliated corporations in a way that distorts the true taxable income of the corporations, the laws of such countries or territories could require the relevant corporation to redetermine transfer prices and thereby reallocate the income of its affiliated corporations in order to reflect such income clearly. Any reallocation of income from one of the corporations of a group in a lower tax jurisdiction to an affiliated corporation in a higher tax jurisdiction could result in a higher overall tax liability to the relevant group. Moreover, if the country or territory from which the income is being reallocated does not agree with the reallocation, the same income could be subject to taxation by both countries or territories.

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The Company has adopted transfer pricing arrangements with its subsidiaries located in the PRC, Hong Kong and Macau to regulate inter-company transfers. During the Track Record Period, the Group has been carrying out its CRM service centre operations through China Elite. Some of the contracts have been sourced by the Company's subsidiaries, namely, International Elite (Macau), PacificNet Communications and Winet, who subsequently outsource their responsibilities for the provision of CRM services to China Elite through the Company. In this regard, the Group is subject to risks not faced by other companies with international operations that do not create inter-company transfers. As a result, the Group's tax position may be subject to review and possible challenge by the relevant authorities and any possible change or challenge in law.

In the event that the Group's tax position is subject to review and possible challenge by the tax authorities or there is a change in the tax policy and relevant tax laws in the PRC, Hong Kong or Macau, it may adversely affect the Group's financial position and results of operation. Pursuant to Rule 5 of the "Notice of amending 'Regulations of Tax Arrangement of Transactions Among Related Companies' by the State Administration of Taxation (國家稅務總局關於修訂〈關聯企業間業務往來稅務管理規程〉的通知)" promulgated in October 2004, any company entering into related party transactions with another company shall submit a yearly return regarding its transactions with the related companies to the supervising tax authority within 4 months after the end of the tax year. As confirmed by the Group's PRC legal advisers, China Elite has filed such yearly transfer pricing returns with its supervising tax authority, and Guangzhou Baiyun State Tax Bureau No. 2 Branch issued a certification on 10 August 2007 to certify that China Elite's reported tax loss from 2002 to 2006 was RMB2,187,128.70, RMB16,355,991.86, RMB9,965,159.66, RMB27,663,100.00 and RMB16,220,151.61 respectively and reported taxable profit for the six months ended 30 June 2007 was RMB4,179,061.15. In addition, pursuant to Rule 56 of the "Detailed Rules for the Implementation of the Laws of the PRC on the Administration of Tax Collection (中華人民共和國稅收徵收管理辦法實施細則)", tax authorities have the rights to adjust the amount of the transactions among related companies if such amount is not determined at arm's length within 3 years, or 10 years if in special case. The tax authorities shall review the tax return in 2 months after the return is filed with them and to decide whether to summon that tax payer for a tax investigation. China Elite has determined transfer prices that it believes are the same as the prices that would be charged by unrelated parties dealing with each other at arm's length as the margin analysis prepared by the Group showed that the margins of projects with transfer pricing arrangement are comparable to, the margins of projects sourced directly by China Elite from Independent Third Parties.

As confirmed by the Group's PRC legal advisers and the Directors, the supervising tax authority of China Elite did not carry out any investigations on the tax returns made by China Elite for the years from 2002 to 2006, and as at the Latest Practicable Date, there is no adjustment made by the supervising tax authority for the amount of related parties transactions of China Elite for the years from 2002 and 2006. As of the Latest Practicable Date, the Directors were not aware of any enquiry or investigation by any tax authority with respect to transfer pricing procedures carried out by the Group. However, in case the Group's transfer pricing position is challenged by relevant tax authority, as advised by the Group's legal advisers to the PRC laws, China Elite may be required to pay 0.2% of the outstanding tax per day as a fine for late payment, calculated from the date when the payment has become overdue. Furthermore, if 1) the relevant tax authority considers China Elite as avoiding tax intentionally through fact hiding or fraud; or 2) China Elite fails to pay the tax after the relevant tax authority has chased for the overdue payment, the relevant tax bureau has the right to impose a penalty of not more than 5 times of the original tax payable and filed criminal litigation against the authorised representative and direct responsible person of China Elite. The Directors have advised that in preparing the financial information, the Directors have reviewed and assessed the Group's transfer

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pricing arrangements in relation to intra-group services and considered that, although the Group is exposed to transfer pricing risk for the fact that it is possible that the PRC tax authority may challenge the Group's transfer pricing position, the Group has grounds to defend against the possible challenge. Based on the Directors' estimation and judgment, no income tax provision is considered necessary by the Group for the two years ended 31 December 2006. As advised by KPMG, the Group's reporting accountants, it has assessed the significant estimates and judgments made by the Directors as well as the legal and tax advice, including inter alia, the transfer pricing benchmarking study and analysis, obtained by the Directors in connection with the Group's transfer pricing position. KPMG is not aware of any material misstatement on the financial information based on the audit procedures performed. The Directors believe that the Group has complied with all applicable transfer pricing laws in all of the jurisdictions in which the Group operates. As advised by the Group's PRC legal advisers, there are no applicable PRC rules and regulations governing transactions among related companies other than the "Laws of the PRC on the Administration of Tax Collection (中華人民共和國稅收徵收管理法)" and the abovementioned "Notice of amending 'Regulations of Tax Arrangement of Transactions Among Related Companies' by the State Administration of Taxation (國家稅務總局關於修訂〈關聯企業間業務往來稅務管理規程〉的通知)" and "Detailed Rules for the Implementation of the Laws of the PRC on the Administration of Tax collection (中華人民共和國稅收徵收管理辦法實施細則)" and the Group does not contravene any applicable PRC laws and regulations regarding transactions among related companies. However, there can be no assurance that the Group will continue to be found to be operating in compliance with transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes to the Group's transfer pricing practices or operating procedures. Any determination of income reallocation or modification of transfer pricing laws could result in an income tax assessment on the portion of income deemed to be derived from the taxing jurisdiction that so reallocates the income or modifies its transfer pricing laws. Each of the Initial Management Shareholders has provided indemnities in favour of the Group for any losses which may arise from the Group's transfer pricing arrangements.

### **The interests of the Controlling Shareholders may differ from other Shareholders**

Immediately following the Placing and the Capitalisation Issue, the Controlling Shareholders collectively will beneficially own 75% of the Shares (assuming no exercise of the Over-allotment Option or the Pre-IPO Share Options and taking into no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Options Scheme). The interests of the Controlling Shareholders may differ from the interests of other Shareholders.

The Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets, election of Directors and other significant corporate action. In cases where their interests are aligned and they vote together, the Controlling Shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of the Controlling Shareholders, the Company may be prevented from entering into transactions that could be beneficial to the Company. In addition, such Controlling Shareholders are also the controlling shareholders and senior executive officers of certain other companies that are outside the Group. There is no assurance that the Controlling Shareholders will act completely in the interests of the Group or that conflicts of interest will be resolved in favour of the Group.

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### RISKS RELATING TO THE INDUSTRY

#### Rapid changes in technology

The industry in which the Group operates is subject to rapid changes in technology. There can be no assurance that the Group will necessarily be able to offer the latest technology or services to its customers, nor develop the expertise, experience and resources to offer the latest technology or services required by customers on a timely and competitive basis. The Group may incur significant expense in developing services and expertise in order to closely follow the latest technology.

If the Group is not able to keep abreast of technological developments in its industry and provide its customers with the latest technological services, this may have an adverse effect on demand for its services, its results of operations and financial condition.

#### Competition

The Group faces increasing competition in the business areas in which it operates. The Directors expect this trend to continue and to accelerate. There is no assurance that competitors will not develop the expertise, experience and resources to provide services that offer greater competitiveness in both price and quality as compared to the services offered by the Group, or that the Group will be able to maintain and enhance its competitive edge. The Group's ability to continue its success will depend on many factors, including pricing, quality of services and technology.

#### Changes in the regulatory environment

As at the Latest Practicable Date, there is no legal requirement pursuant to which the Group must obtain a licence under the “Regulations on Telecommunications in the People’s Republic of China (中華人民共和國電信條例)” to operate as a CRM outsourcing service provider in the PRC. In the event that the PRC government imposes any such law and /or regulations which impacts on the Group’s business, the Directors will use its best endeavours to comply with such laws and / or regulations as required. However, there can be no assurance that the changes in the regulatory environment will not have an adverse effect on the Group’s business and results of operation.

### RISKS RELATING TO THE PRC

#### Political, economic and legal environment of the PRC

The Group’s CRM service centres are located in Guangdong Province, the PRC, the operations of which are therefore subject to the laws and regulations prevailing in the PRC. Potential investors should note that the Group’s operations may be adversely affected should there be any changes in the political, economic and legal environment in the PRC or changes in the policies or regulations in the PRC relating to the industry in which the Group operates.

#### Currency conversion and exchange control

At present, RMB is not freely convertible into other currencies. Pursuant to the current relevant regulations in the PRC, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies overseas or repatriate such profit or dividends after converting the same from RMB into foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB into foreign currencies for items in their current accounts (including dividend payment to foreign investors) and that the control over conversion of RMB into foreign currencies for items in their capital accounts (including direct investment, loan and investment in securities) is more stringent.

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The Group's business operations are, to a significant extent, undertaken by China Elite, a wholly foreign-owned enterprise established in the PRC, which is subject to the above regulations. While the Group has not encountered any problems in the past in obtaining foreign currency in the PRC, there is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange in the future.

### **Difficulties in seeking recognition and enforcement of foreign judgments or arbitral awards in China**

A substantial part of the Group's assets are located within the PRC. Therefore, it may not be possible for investors to enforce against the Group within the territory of the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most jurisdictions. On 14 July 2006, Hong Kong and China entered into the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Region Pursuant to Choice of Court Agreements Between Parties Concerned" (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute have not entered into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against the Group's assets in China in order to seek recognition and enforcement of foreign judgments in China.

China is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"), which accordingly allows for the enforcement of arbitral awards given by the arbitral bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a Memorandum of Understanding was signed on 21 June 1999 to permit reciprocal enforcement of arbitral awards between Hong Kong and the PRC. Such Memorandum of Understanding was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Therefore, it may be difficult to seek recognition and enforcement of arbitral awards in China if the arbitral awards were given by arbitral bodies that are not signatories to the New York Convention and do not have similar arrangements under the Memorandum of Understanding between Hong Kong and the PRC.

### **Changes in the PRC government policies in foreign investment in the PRC may adversely affect the business and results of operations of the Group**

The Group is subject to restrictions on foreign investment policies imposed by the PRC law from time to time. For instance, under the Foreign Investment Catalogue, some industries are categorized as sectors which are encouraged, restricted or prohibited for foreign investment. As the Foreign Investment Catalogue is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render part or all of the businesses of

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the Group to fall within the restricted or prohibited categories. If the Group cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or restricted for foreign investors, it may be forced to sell or restructure the businesses which have become restricted or prohibited for foreign investment. If the Group is forced to adjust the corporate structure or business line as a result of changes in government policy on foreign investment, the business, financial condition and results of operations of the Group may be materially adversely affected.

### **Recurrence of Severe Acute Respiratory Syndrome (SARS) and outbreak of other epidemics and/or avian flu**

The PRC and other Asian countries, including Hong Kong, experienced an outbreak of SARS in early 2003, which significantly impacted on the economy of the PRC and throughout the Asia-Pacific Region. There have also been spreads of the avian flu in various areas of the PRC as well as in other Asian countries. Should there be a recurrence of SARS or an outbreak of any other epidemic, this would directly or indirectly impact on the PRC's economy, which may in turn impact on the Group and its customers. This may adversely affect the Group's business and turnover.

### **RISKS RELATING TO THE PLACING**

#### **Termination of the Underwriting Agreement**

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate its obligations under the Underwriting Agreement by the Lead Manager (for itself and on behalf of the other Underwriters) giving notice in writing to the Company upon the occurrence of any of the events stated in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Lead Manager (acting on its behalf and the other Underwriters) terminate its obligations under the Underwriting Agreement in accordance with the terms of the Underwriting Agreement, the Placing will lapse and no allocation of the Placing Shares to potential investors will be effected.

#### **Less protection to minority shareholders under the Cayman Islands law**

The Group's corporate affairs are governed by its memorandum of association and Articles, the Cayman Islands Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong. Such differences may mean that the minority shareholders of the Group may have less protection than they would otherwise have under the laws of Hong Kong. For example, the Cayman Islands law does not provide for a statutory equivalent of section 168A of the Companies Ordinance pursuant to which shareholders who have been unfairly prejudiced by the conduct of the company's affairs are given a cause of action under the section to seek remedies against such conduct. For details please see "Summary of the Constitution of the Company and the Cayman Islands Companies Law" in Appendix V to this prospectus. As a result, the investors may not be able to seek remedies as a minority shareholder under Cayman Islands law which are otherwise available under Hong Kong law.

#### **Marketability and possible price and trading volume volatility of the Shares**

The Shares have not been traded in any open market before completion of the Placing. The Placing Price of the Shares may differ from the market price thereof and may not serve as an indicator of the price of the Shares traded on GEM in the future. There is no assurance that an active trading market of the Shares will develop or if it does develop, that it may be sustained upon its listing on GEM.

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Upon listing of the Shares on GEM, the transaction volume and market price of the Shares may be affected by various factors, including the income, profitability and cash flow of the Company, announcement of new products and/or investment plans, technology advancements, change of senior management, strategic alliance and/or acquisition, transaction volume of the Shares, development of GEM, general economic conditions and other factors. All such factors may result in significant fluctuations in the market price and/or transaction volume of the Shares. There is no assurance that such changes will not occur.

### **Dilution of Shareholders' equity interests**

The Group may need to raise additional funds to finance the future expansion of its existing operations or new acquisitions. The Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of the Company (subject to certain exceptions) may be issued or form the subject of any agreement to issue within six months from the Listing Date. The Group may raise such funds by way of issuance of new equity or equity-linked securities of the Company other than on a pro-rata basis to existing Shareholders (e.g. rights issue) after six months from the Listing Date, in which case the percentage shareholding of the then existing Shareholders may be diluted or reduced or such new securities may confer rights and privileges that take priority over those conferred by the Shares.

### **Impact of granting the Pre-IPO Share Options and options under the Share Option Scheme**

The Company has adopted the Pre-IPO Share Option Scheme on 21 September 2007 pursuant to which Pre-IPO Share Options entitling the holders thereof to subscribe for an aggregate of 60,000,000 Shares have been granted, representing (i) approximately 6.58% of the issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options and options which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option); and (ii) approximately 6.17% of the issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue and assuming that all Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option). The Company has also adopted the Share Option Scheme although no options have been granted thereunder as at the Latest Practicable Date.

The fair value of the options granted under the Pre-IPO Share Option Scheme amounted to approximately HK\$18.1 million will be amortised over a period of 12 months of vesting period and hence, there will be an impact on the Group's income statements for the year ending 31 December 2007 to the year ending 31 December 2008.

Any exercise of the Pre-IPO Share Options or options to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net assets value per Share, as a result of the increase in the number of Shares outstanding after the issuance.

Under the Hong Kong Financial Reporting Standard, the costs of the Pre-IPO Share Options granted and the options to be granted to employees under the Share Option Scheme will be charged to



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the Group's consolidated income statement over the vesting period by reference to the fair value at the date at which the Pre-IPO Share Options or the options under the Share Option Scheme are granted. As a result, the Group's profitability may be adversely affected.

### **RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

#### **Statistics and facts**

All of the statistics relating to the economy of Hong Kong, Macau and the PRC and the telecommunications industry and most of the related facts set out in the section headed "Industry Overview and Regulatory Overview" of this prospectus have been extracted from various government official sources. Although reasonable care has been taken to ensure that such statistics and facts extracted are accurate, the Group has not carried out any independent verification on such statistics and facts. Accordingly, the Group makes no representation as to the completeness or accuracy of such statistics and facts. Due to different collection methods and other reasons, the statistics and facts extracted from various government official sources contained in this prospectus may be inaccurate and should not be unduly relied upon.

In all cases, investors should consider the weight or importance they should place on all such facts and statistics that are set out in the section headed "Industry Overview and Regulatory Overview" of this prospectus.

#### **Accuracy of forward-looking statements**

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual performance or achievements of the Group to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this prospectus. Such forward-looking statements are based on numerous assumptions as to the Group's present and future business strategies and the environment in which the Group will operate in the future. The Group's actual performance or achievements may differ materially from those discussed in this prospectus.