

RISK FACTORS

We believe that there are certain risks involved in our business and operations. They can be classified into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to Hong Kong; (iv) [●]; (v) [●]; and (vi) [●].

RISKS RELATING TO OUR BUSINESS

We rely heavily on our professional staff

Our Group relies heavily on our professional staff, including our Hong Kong registered architects, PRC registered architects, authorised persons, registered town planners and registered landscape architects to render comprehensive architectural service to our clients. Details of our Group's professional staff are set out in the section headed "Business — Major Qualifications". Members of our professional staff may voluntarily serve notice of termination of their employment with us at any time and our Group may not be able to retain them. We may not be able to find suitable replacement and even if we can find suitable replacement, it may be costly and time-consuming. The loss of service of these professional staff and failure to find suitable replacements could adversely and significantly affect our operations and financial position. For details on our reliance on professional staff and suitability for [●], please refer to the section headed "[●]".

Our continued success depends on our responsiveness to our client's preference

Comprehensive architectural service is highly dependent on our client's preference and culture which are highly subjective in nature. Design that appeals to some clients may not appeal to others. Our Directors believe that one of the major factors underlying our continued success is our responsiveness to our client's preference.

Since preference, culture and expectations vary from developer to developer, we must be able to anticipate, identify and respond promptly to their preference in order to achieve a continued success in the industry. If we fail to anticipate or respond to our client's preference, fail to introduce commercially viable design or fail to do so in a timely manner, our business and results of operations may be materially and adversely affected.

Our Group determines the tender price based on, among other things, the estimated time and costs involved in a project, which may deviate from the actual time and costs involved

Our projects are generally awarded through competitive tendering. Our tender price of a project is based on, among other things, our estimated time and costs of completing the work. There is no assurance that the actual time spent and the actual costs for a project would fall within our estimation.

The time taken and the costs actually involved in completing our projects may be adversely affected by many factors, including among others:

- the departure of key personnel;
- disputes with our clients or sub-consultants;

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- delays in obtaining the necessary licences, permits, certificates or approvals from governmental agencies or authorities;
- changes in government policies;
- changes in market conditions;
- other unforeseen problems and circumstances; and
- any event or series of events in the nature of force majeure.

Any one of the above factors may give rise to an unexpected increase in our time and costs involved due to the delay in our projects or increase in complexity of our projects. If we are unable to reallocate our resources in an efficient manner or enter into a variation order with our clients, this may result in our profitability to be lower than we have expected.

During the Track Record Period, there were two projects which our Directors consider the actual time or costs involved were materially deviated from estimation. Details of these projects are set out as follows:

Practice Area	Nature of project	Reasons for the time/ cost overrun	Delay in the project timetable
Architecture	Residential development in Hong Kong	Upon completion of ground investigation works, extensive Karst collapse (cavernous marble) and thick layer of cobbles/boulders were identified within the site which was unforeseeable at the commencement of the works. Due to the complex underground geology, additional ground investigation works was required and affected the depth of piling works which caused delay to the construction period.	6 months

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Practice Area	Nature of project	Reasons for the time/ cost overrun	Delay in the project timetable
Architecture	Residential development in Hong Kong	It was our expectation that the approval of general building plan (GBP) would be obtained within nine months since the project commencement. However, the GBP approval could not proceed further until the clarification of such land matters with the government authorities.	1.5 years

Our Directors have confirmed that the delays in the abovementioned projects (i) do not result in a loss to us; (ii) do not have a material impact on our financial performance or operations of business; and (iii) do not incur any liability or penalty to us.

Negative publicity or damage to our business reputation may have potential adverse impact on our business

As a professional service provider, our Group's ability to secure new projects depends heavily upon our reputation and the reputation of our team as we generally obtain our business by invited tendering. Negative publicity associated with our Group or our team could result in the loss of clients or increasing difficulty to be awarded new projects in the tendering process. In the event that, (i) any client, HKIA or MOHURD is not satisfied with our work; (ii) there is any delay in completing a project because of the quality of our work or other parties in the project; and (iii) any party raises any complaint regarding our Group which comes to the attention of the public, our existing or potential clients, the business, brand and reputation of our Group may be adversely affected, which will in turn, adversely affect our growth prospects and financial condition.

Our revenue is mainly derived from projects which are not recurring in nature

Most of our projects are undertaken on a case-by-case basis. As such, our revenue derived from such projects is not recurring in nature and we cannot guarantee that our clients will provide us with new business after our current projects are completed. Our Group has to go through a competitive tendering process to secure new projects. In the event that we are unable to maintain our reputation, our business relationships with our existing clients or are unable to make our tender price competitive, our business and our revenue will be adversely affected.

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We rely on our management team in operating our business

Our success relies, to a significant extent, on our ability to identify, hire, train and retain suitable, skilled and qualified employees, including management personnel with the requisite expertise. Our management team, comprising our executive Directors and our senior management, has on average more than 15 years of experience in the industry and our Directors believe that we possess in-depth knowledge and insightful understanding of the culture and preference of the developers in the market. Further information about our management's experience is set out in the section headed "Directors, Senior Management and Staff". If any of our executive Directors or our senior management cease to be involved in the management of our Group in the future and our Group is unable to find suitable replacement in a timely manner, there could be an adverse impact on the business, results of operations and profitability of our Group.

Our service fee may not be paid in full due to suspension or failure of our client's projects

Projects of our clients involve complex procedures that last for a long period of time and contain many inherent risks that could prevent the projects from being completed as originally planned. During the Track Record Period, we were involved in three projects which were suspended or failed to complete. Details of these projects are set out as follows:

Practice Area and nature of project	Reasons for the suspension or failure of the project	Total contract sum of the project	Contract sum collected as at [the Latest Practicable Date]	Remaining contract sum as at [the Latest Practicable Date]	Full receipt of relevant progress billings receivables	Any write-off or impairment provision for the remaining contract sum
Architecture-commercial development in the PRC	The project was terminated in June 2011 as the development was acquired by another property developer	HK\$17.0 million	HK\$4.8 million	HK\$12.2 million	Yes	No remaining contract sum was recognised as revenue, hence no further write-off or impairment provision will be required
Architecture-commercial development in the PRC	The project was suspended in December 2012 due to land issue by the government	HK\$1.7 million	HK\$0.2 million	HK\$1.5 million	Yes	The amount due from the customer for the contract work of HK\$0.1 million is subject to be written off once the project is formally terminated by client. No provision has been made during the Track Record Period.

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Practice Area and nature of project	Reasons for the suspension or failure of the project	Total contract sum of the project	Contract sum collected as at [the Latest Practicable Date]	Remaining contract sum as at [the Latest Practicable Date]	Full receipt of relevant progress billings receivables	Any write-off or impairment provision for the remaining contract sum
Architecture-commercial and mixed use development in the PRC	The project was suspended in December 2011 due to land issue by the government.	HK\$10.9 million	HK\$2.6 million	HK\$8.3 million	Yes	The amount due to the customer for the contract work of HK\$0.9 million is subject to be written back as additional revenue once the project is formally terminated by client. No provision has been made during the Track Record Period.

The aggregate remaining contract sum of the abovementioned projects amounted to approximately HK\$22.0 million, of which an amount of HK\$0.1 million of amount due from customer for contract work will be subject to be written-off if the projects are formally terminated by our clients.

In general, we are not exposed to any liability or penalty due to suspension or failure of our client's projects. However, any suspension or failure to complete our client's projects may have an adverse effect on our liquidity position because our service fee may be not paid in full.

During the Track Record Period and as at the Latest Practicable Date, our Group had not been subject to any liability or penalty due to the suspension or failure of our client's projects.

There is no guarantee that progress payment will be paid to us on time

We usually receive progress payment from our clients according to the achievement of a specific milestone as set out in the service contract. We also conduct invoice review from time to time. Once a specific milestone is completed, we will issue an invoice to our client.

There can be no assurance that progress payment will be paid to us on time by our clients or the level of bad debt arising from such payment practice can be maintained at the same level as in the Track Record Period. Any failure by our clients to make remittance on time may have an adverse effect on our future liquidity position.

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We are exposed to the credit risk of and may experience increasing balance of amounts due from customers for contract work and progress billings receivable from contract customers and longer debtors' turnover days in the future

We are subject to the credit risks of our clients and our liquidity is dependent on our clients making prompt payment on billings for work done by us. As at 31 December 2011 and 2012, the amounts due from customers for contract work amounted to HK\$39.6 million and HK\$77.2 million respectively, representing an increase of HK\$37.6 million or 95.0% whereas the respective amounts due from customers for contract work attributable to 28.9% and 36.7% of the total assets respectively. As at 30 June 2013, the amounts due from customers for contract work amounted to HK\$107.4 million, representing an increase of HK\$30.2 million or 39.1% compared with 31 December 2012, which was attributable to 50.8% of the total assets as at 30 June 2013. As at 31 December 2011 and 2012, the progress billings receivable from contract customers amounted to HK\$31.5 million and HK\$72.8 million respectively, representing an increase of HK\$41.3 million or 131.1% whereas the respective amounts of progress billings receivable from contract customers attributable to 23.0% and 34.6% of the total assets respectively. As at 30 June 2013, the progress billings receivable from contract customers amounted to HK\$54.1 million, representing a decrease of HK\$18.7 million or 25.7% compared with 31 December 2012, whereas the respective amounts of progress billings receivable from contract customers attributable to 25.6% of the total assets as at 30 June 2013. In addition, the average debtors' turnover days were 50.3 days and 96.6 days and 88.2 days for each of the two years ended 31 December 2012 and for the six months ended 30 June 2013, respectively. For details of reasons of the fluctuations in progress billings receivable from contract customers and debtors' turnover days, please refer to the paragraph headed "Progress billings receivable from contract customers" under the section headed "Financial Information".

There is no assurance that we will be able to bill all or any part of the amounts due from customers for contract work according to the billing schedule as stated on our service contract or we will be able to collect all or any part of progress billings receivable from contract customers within the credit terms granted by us to our clients or at all. There is also a possibility that we may take longer than the debtors' turnover days to collect payments. This will therefore, negatively affect our cash flow and financial performance.

We may experience a significant deterioration in financial performance for the year ending 31 December 2013 which is mainly attributable to the [●] expenses

The financial results of our Group for the year ended 31 December 2013 would be affected by the non-recurring [●]. The estimated [●] for the year ending 31 December 2013 are approximately HK\$20.0 million ([●]), of which approximately HK\$5.7 million are directly attributable to [●] and are expected to be accounted for as a deduction from equity. The amount of [●] expenses is a current estimate for reference only and the final amount to be recognised to the combined statements of profit or loss and other comprehensive income of our Group for the year ending 31 December 2013 is subject to changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2013 would be significantly affected by the estimated [●] mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

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We have records of non-compliance with the Companies Ordinance

There have been some instances of non-compliance with the Companies Ordinances, including (i) failure to lay the audited accounts in our Group members' annual general meetings or lay audited accounts made up to a date falling not more than nine months before the date of the meeting under section 122 of the Companies Ordinance; and (ii) filing of the annual return or notice of certain corporate particulars or changes thereof after the time specified in the Companies Ordinance. For details, please see the section headed "Business — Regulatory Compliance — Non-Compliance with the Companies Ordinance".

If the Hong Kong Companies Registry takes action against our Group members and/or our Controlling Shareholders fail to indemnify us to a sufficient extent or at all, we may be required to pay certain penalties. In these circumstances, if we are required to make significant penalty payments, our reputation, cash flow and results of operations may be adversely affected.

Our Group is subject to potential exposure to professional liabilities

Our Group is principally engaged in the provision of comprehensive architectural service to our clients. Our client, who suffers loss as a result of our Group having been negligent in providing such service, could claim compensation from our Group. Our Directors consider that the major business risk associated with our provision of service is the potential of having lawsuits arising from professional negligence, misconduct and fraudulent act.

Quality control measures have been adopted by our Group to mitigate the risk arising from professional negligence, misconduct and fraudulent act caused by our employees and to ensure that all projects are performed in accordance with the required professional standards and up to the satisfactions of our clients, for the purpose of limiting our exposure to professional liability. Details of our Group's quality control measures are set out in the section headed "Business — Quality Control and Risk Management". In spite of the measures adopted by our Group, there is no assurance that these measures can completely eliminate professional negligence, misconduct or fraudulent act caused by our employees. If our Group experiences any event of professional negligence, misconduct or fraudulent act, our Group could be exposed to liabilities, such as claims or lawsuits, and the same may have an adverse impact on our Group's reputation. Our Group is covered by professional indemnity insurance coverage, it may have an adverse impact on our Group's financial position in the event that the claim exceeds the coverage or the insurance does not cover such claim. Details of our Group's insurance policies are set out in the section headed "Business — Insurance". Since our establishment and up to the Latest Practicable Date, our Group has not been subject to nor received any claim resulting from our service provided to our clients.

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As advised by our legal advisers as to Hong Kong laws and our PRC Legal Advisers, our potential exposure to professional liabilities may affect our Company and relevant subsidiaries only, and given that a company and shareholders of such company are separate legal entities, [●] will not expose our shareholders and potential investors personally to significant risks of professional liabilities. For details on our potential exposure to professional liabilities and [●], please refer to the section headed "[●]".

Risks associated with our computer hardware system and data storage

Our work is substantially carried out by computers. Our Group has maintained an information technology support for the computer hardware and data storage. The data centre and the computer server of our Group are currently situated at our premises in Hong Kong and Shenzhen with restricted access to authorised persons. Our Group's back-up facilities may become malfunctioned in the event of physical breakdown of and damage to our computer hardware and data, which may lead to loss of data.

There is no assurance that our Group has sufficient ability to protect the computer hardware and data storage from all possible damage, including but not limited to, acts of nature, telecommunications breakdown, electricity failure or similar unexpected events. Any damage to our computer hardware and data will cause business interruption to our Group, and thus will directly and adversely affect our operating performance. Any damage to our computer hardware and data may have a material impact on our operating performance and reputation.

We may be exposed to risks of potential computer system failure and disruptions

The network computer system of our Group is vulnerable to the attack of computer virus, worms, trojan horses, hackers or other similar computer network disruptive problems. Any failure in safeguarding our computer network system from these disruptive problems will cause the breakdown of our computer network system and leakage of confidential information, including the designs of our Group, particulars of tenders to be placed by our Group and information of our projects and our clients. There is no assurance that our computer network system is absolutely secured. Any failure in the protection of our computer network system from external threats may cause disruption of our operations and may damage our reputation for any breach of confidentiality to our clients and in turn, may indirectly adversely affect the business operations and performance of our Group. During the Track Record Period and up to the Latest Practicable Date, we did not experience any breakdown in our computer network system or breach of confidentiality.

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RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our Group's business is subject to a number of licences, permits and qualifications

Our Group and our staff must hold the relevant licences and permits to operate our business. Such licences and permits include qualifications of being a registered architect and the Grade A Qualification. Non-compliance with the relevant regulatory requirements may result in refusal by relevant authorities to renew the relevant licences and permits which would interrupt our business and have a material adverse effect on our operations or financial condition.

On 2 April 2011, LWK Yiheng became a sino-foreign joint venture, details of which are set out in the section headed "History, Reorganisation and Group Structure — Our Major Operating Subsidiaries — LWK Yiheng (PRC)". Pursuant to Notice (No. Jian Shi 229 [2007]) issued by the Ministry of Construction in relation to the approval of qualification due to change of business type, reorganisation or separation of a construction engineering enterprise (建設部關於建設工程企業發生改制、重組、分立等情況資質核定有關問題通知(建市[2007]229號)), LWK Yiheng had to apply and obtain re-approval of the Grade A Qualification from MOHURD when LWK Yiheng changed its business type to a sino-foreign joint venture.

LWK Yiheng filed the first re-approval application of the Grade A Qualification after changing its business type in April 2011. Our Company was not aware that MOHURD did not process the first re-approval application successfully due to insufficient documents, of which was published in August 2012. While we appointed our PRC Legal Advisers in relation to the laws of the PRC for the [●] purposes, our PRC Legal Advisers identified the abovementioned in March 2013. LWK Yiheng then furnished supplemental documents for the re-approval of the Grade A Qualification promptly and the re-approval application was accepted on 29 May 2013 by MOHURD. Pursuant to Jian Ban notice of acceptance no. 31 [2013] issued by the general office of MOHURD on 2 August 2013 in relation to the opinion about the examination of the qualification of construction engineering enterprise (住房和城鄉建設部辦公廳8月2日公佈的《關於建設工程企業資質審查意見的公示》(建辦受理函[2013]31號)), (i) LWK obtained the re-approval of the Grade A Qualification; and (ii) granted by MOHURD, the re-approved Grade A Qualification would become effective after the expiry of the publicity period from 5 August 2013 to 16 August 2013. On 29 September 2013, MOHURD issued a new Grade A Qualification to LWK Yiheng for a term of 5 years commencing from 29 September 2013 and expiring on 29 September 2018.

For more information, please refer to the section headed "Business — Licenses and Permits — Grade A Qualification of LWK Yiheng". For details on our major qualifications and suitability for [●], please refer to the section headed "[●]".

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We face intense competition

As at the Latest Practicable Date, there were [174] architectural service companies duly registered in the HKIA. The market is highly competitive with the presence of both local and international service providers. As such, we have to compete with other service providers in terms of price and delivery on an international level. The architectural service market in the PRC is highly fragmented with different types of service providers offering comparable service types, including architecture, landscape architecture, town planning, interior design and heritage conservation. According to the [●] Report, it was estimated that there were 11,144 architectural service providers in the PRC in 2011, among which 1,562 held the Grade A Qualification. The rapid expansion of architectural service providers will intensify competition in the market which may induce price competition. If we fail to compete effectively, our business operations and financial condition will suffer.

The PRC architectural service industry is heavily regulated by different laws, regulations and policies

The architectural service industry is highly regulated in the PRC. Various regulatory authorities of the central PRC government, such as the State Council, MOHURD and MOFCOM, are empowered to issue and implement regulations governing various aspects of the architectural service industry. In addition, the architectural service business is also governed by policies in the PRC. The policies relating to the architectural service industry, especially the policies relating to the foreign-invested architectural service enterprises, may have a material effect on our business.

To engage in architectural service activities, such as the architectural design service activities, in the PRC, an enterprise shall obtain certain design qualifications from competent authorities and fulfil requirements relating to the registered capital, professional technicians, etc. Moreover, the professional technicians engaged in construction activities shall obtain relevant qualification certificates and engage in construction activities within the scope of their qualification certificates. If our Group fails to meet such requirements, our business operations may be materially and adversely affected.

RISKS RELATING TO HONG KONG

Our business and results of operations are affected by the demand for our service from property developers in Hong Kong, which in turn is subject to the performance of the property market in Hong Kong

Our performance and financial condition are significantly dependent on the demand from property developers in Hong Kong as our revenue attributable to our projects located in Hong Kong accounted for 19.7%, 26.0% and 29.0% of our Group's total revenue for each of the two years ended 31 December 2012 and the six months ended 30 June 2013, respectively. Any downturn in the Hong Kong property market may therefore, decrease the demand for our service, which in turn will adversely affect our performance. We cannot assure you that the demand for properties in Hong Kong will continue to grow, or will grow at all. Our financial position and results of operations may be influenced by

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fluctuations of supply and demand in the property market, which may, in turn, be influenced by the general state of the economy and other factors, including government policies. In recent years, the Government and other regulatory bodies in Hong Kong have introduced certain anti-speculation measures on the property market in Hong Kong. There is no assurance that the Government would not announce further measures which may adversely affect the performance of the property market in Hong Kong, which will in turn, bring significant impact on our business and results of operations.

Apart from the Government measures, there are numerous factors affecting the property market in Hong Kong and the performance of the property developers, including cyclical trends in the economy as a whole, fluctuations in interest rates and the availability of land supply. Should there be a recurrence of recession in Hong Kong, deflation or any changes in Hong Kong's currency policy, or should the demand for property in Hong Kong deteriorate, there may be adverse impacts on the business prospect or performance of the property developers or property market as a whole in Hong Kong, resulting in decreasing in demand for our service. As such our business and results of operations could be adversely affected.

RISKS RELATING TO THE PRC

Our business in the PRC depends on the growth of the PRC property market

Our business in the PRC depends on the growth of the PRC property market. Adverse impact on the PRC property market or our developers in the PRC could have a negative effect on us. For instance, a significant adverse impact on the PRC property market could reduce the demand for commercial and residential properties, changes in market conditions, including price instability and an imbalance of supply and demand in respect of commercial and residential properties, which may materially affect our business and results of operations in the PRC.

We are susceptible to the demand for our services from property developers in the PRC, which in turn is subject to the performance of the PRC property market

For each of the two years ended 31 December 2012 and the six months ended 30 June 2013, we generated revenue of 79.7%, 73.6% and 68.5% from our PRC projects, respectively. As such, we are susceptible to the demand for our services from property developers in the PRC and any adverse changes in their business and financial performances may have adverse impacts on our business and results of operations.

The PRC property market is sensitive to policy changes. The PRC government from time to time exerts considerable direct and indirect influence on the development of the PRC property market to prevent and curtail the overheating of the economy by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange property financing, taxation and foreign investment. These policies and measures may have adverse impacts on the performance of the PRC property market as well as that of the property developers, including but not limited to, limiting their abilities to obtain financing, acquire land for future developments, sell properties at a profit or generate sufficient operating cash flows

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from contracted sales. As a result, our business and results of operations may be materially and adversely affected due to any changes in business prospect or performance of the property developers or property market as a whole in the PRC.

Our business operations may be affected by regulatory changes

The establishment and many aspects of the business operations of our PRC subsidiaries are governed by various local, provincial and national regulatory regimes. The PRC legal framework, qualification requirements and enforcement trends in the architectural design industry may change, and we may not be able to respond to such changes in a timely manner. Such changes may cause the compliance costs to increase, which may materially and adversely affect our business, financial condition and results of operations. For example, if any change to the requirements for architectural design qualification occurs and we fail to meet the new requirements in a timely manner or at all, our business operations will be materially and adversely affected.

The PRC legal system embodies uncertainties that could limit the legal protections available to you and us

Unlike the common law system, the PRC legal system is based on written statutes, directives and policies. Decided legal cases have little precedential value. The PRC government since 1979 has commenced to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protection afforded to various forms of foreign investment in the PRC. Nevertheless, there is an underlying uncertainty in the legal protection under the PRC legal system, because the relevant PRC laws, regulations and legal requirements may change from time to time, and their interpretation and enforcement may vary. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have wide discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to estimate the outcome of administrative and court proceedings and the level of legal protection we could enjoy compared to the same under those more developed legal systems. Such uncertainties, including the uncertainty to enforce our contracts and intellectual property rights, could materially and adversely affect our business operations.

Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protection available to us and other foreign investors, including our Shareholders and prospective investors.

We may be classified as a "resident enterprise" of the PRC under the EIT Law which could result in unfavorable tax consequences to us and our Shareholders that are "non-resident enterprises"

Under the EIT Law and its implementing rules, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a "resident

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enterprise," and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The implementing rules of the EIT Law define de facto management bodies as "establishments that carry out substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. The EIT Law and its implementing rules are relatively ambiguous in terms of some definitions, requirements and detailed procedures. Currently, official interpretation or application of this "resident enterprise" classification is only available with respect to an offshore company whose major holding investors are enterprises or enterprises groups in the PRC. It is therefore, unclear how tax authorities will determine tax residency based on the facts of each case.

If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries through our Hong Kong intermediate holding company may qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to withholding tax. Finally, the "resident enterprise" classification may result in a situation in which a 10% withholding tax is imposed on dividends we pay to our Shareholders that are "non-resident enterprises" and with respect to gains derived by such Shareholders from transferring our Shares, if such income is considered as PRC-sourced income by the relevant PRC authorities.

If any such PRC taxes apply, our Shareholders that are "non-resident enterprises" may be entitled to a reduced rate of PRC taxes under an applicable income tax treaty or a foreign tax credit against such Shareholder's domestic income tax liability (subject to applicable conditions and limitations). You should consult your own tax advisers regarding the applicability of any taxes, the effects of any applicable income tax treaties, and any available foreign tax credits.

We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises' Share Transfers (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) ("SAT Circular No.698")

Pursuant to SAT Circular No.698, which was issued by SAT and became effective as at 1 January 2008, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (an "Indirect Transfer"), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a "substance over form" approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No.698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC

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resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There are uncertainties as to the application of SAT Circular No.698. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction to request information from a wide range of foreign entities having no direct contact with the PRC. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdiction and the progress and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise remain unclear. In addition, there is no formal declaration regarding the way to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer the PRC tax. SAT Circular No.698 empowers the tax authorities with wide discretion to determine what amounts to lack of reasonable commercial purpose. As a result, we may become at risk of being taxed under SAT Circular No.698 and may be required to put in resources to comply with SAT Circular No.698 or to establish that we should not be taxed under SAT Circular No.698 for our historical offshore share transfers and any potential restructuring in the future, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The M&A Rules establish procedures for some acquisitions of PRC companies by foreign entities, which could make it more difficult for us to expand through acquisitions in the PRC

On 8 August 2006, six PRC regulatory agencies, including CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, which became effective on 8 September 2006 and was amended by MOFCOM on 22 June 2009. The M&A Rules, among other things, provide for additional procedures and requirements that could make some acquisitions of PRC companies by foreign entities more time-consuming and complicated. If the relevant PRC government authorities decide that such activities are subject to the M&A Rules, we will be required to obtain approval for such transactions from MOFCOM, or its local counterpart. In the future, we may expand our business by acquiring complementary businesses. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Any failure by our Shareholders or beneficial owners who are PRC citizens or residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, our overseas and cross-border investment activities, or result in liability under PRC laws

SAFE Circular 75 states that PRC citizens or residents must register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a roundtrip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by

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the PRC citizens or residents. In addition, such PRC citizens or residents must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investments, external guarantees, or other material events that do not involve roundtrip investments.

If any PRC shareholder of the offshore special purpose vehicle fails to make or update the required registration, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose vehicle, and similarly, the offshore special purpose vehicle may also be prohibited from contributing additional capital into its PRC subsidiaries. Furthermore, failure to comply with the foregoing requirements could result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

We are committed to, and to procure our Shareholders who are PRC citizens or residents to, comply with the SAFE Circular 75 requirements. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with the SAFE Circular 75 requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC citizens or residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 75 or other related regulations. Failure by any such Shareholders or beneficial owners to comply with SAFE Circular 75 could expose us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and results of operations.

Restrictions on currency exchange may limit our ability to utilise our revenue effectively and the ability of our PRC subsidiaries to obtain financing

During the Track Record Period, part of our revenue and our operating expense are denominated in Renminbi. Restrictions on currency exchange imposed by the PRC government may limit our ability to utilize the revenue generated in Renminbi to fund our business activities outside the PRC, if any, or expenditures denominated in foreign currencies. Under the current PRC regulations, Renminbi may be freely converted into foreign currency for payments relating to "current account transactions", which include, among other things, dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign exchange in their respective current account bank accounts, subject to a cap set by SAFE or its local counterpart, for use in payment of international current account transactions. However, conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions", which principally includes investments and loans, generally requires the approval of SAFE and other relevant government authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.