

RISK FACTORS

An investment in the Placing Shares involves certain risk. Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Group before making any investment decision in relation to the Group.

This prospectus contains certain forward looking statements relating to the Group's plans, objectives, expectations and intentions. The cautionary statements in this prospectus should be read as applicable to all forward looking statements herein. The Group's future financial results or operations could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

Exposure to North Anhua's obligations

I. *Lack of appropriate title certificates for development co-operation projects*

The Group entered into a project development co-operation agreement in March 2000 with CNA Anhua (Hertz), a wholly owned subsidiary of North Anhua and of which Mr. Loh Nee Peng is a director. The Group provided CNA Anhua (Hertz) with approximately HK\$34 million for prepayment of rental expense for the use of service centres and other related facilities which are under construction by CNA Anhua (Hertz) in Guangdong Province, Fujian Province and Beijing Municipality. The service centre in Fujian Province will be used as the replacement of the current service centre in the Xiamen Special Economic Zone. Construction plan of the service centre in Xiamen has been approved by the relevant PRC authorities. The Directors expect that the construction will start in June 2002. The service centres in Beijing Municipality and Guangdong Province will be used for servicing car rental business. The development of the service centre in Beijing Municipality was completed in December 2001, and CNA Anhua (Hertz) is in the process of obtaining the land title certificates. For the site in Guangdong Province, the construction plan is being prepared by CNA Anhua (Hertz) and will be submitted to the relevant PRC authorities for approval. The construction is expected to commence in September 2002. Under the said agreement, CNA Anhua (Hertz) will use the prepayment to subsidise and finance the construction cost and will provide land and building for the Group to use for 50 years rent free. Pursuant to the agreement, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million to the Group if appropriate title certificates in the name of CNA Anhua (Hertz) for such land and buildings cannot be obtained by June 2002. In April 2002, considering the construction progress of the development co-operation projects, the Group entered into a supplemental agreement with CNA Anhua (Hertz) to amend the said project development co-operation agreement. Pursuant to the said supplemental agreement, the deadline for CNA Anhua (Hertz) to obtain the appropriate title certificates in accordance with the terms of the said development co-operation agreement is extended to June 2003. Should CNA Anhua (Hertz) fail to obtain appropriate title certificates by June 2003, CNA Anhua (Hertz) is obliged to refund the prepayment of HK\$34 million by 3 equal installments by the end of June, September and December 2003. The Directors confirm that there will be no further

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postponement of the projects. However, there is no assurance that CNA Anhua (Hertz) will be able to obtain the appropriate title certificates in accordance with the terms of the said supplemental agreement or refund all or any part of the said approximate amount of HK\$34 million to the Group in the event that such title certificate cannot be obtained by June 2003. Nevertheless, Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in full for the loss incurred or suffered by it in the event that CNA Anhua (Hertz) fails to obtain the appropriate title certificates in accordance with the terms of the said project development co-operation agreement. **Such indemnity is further secured by 64,664,000 Shares to be placed with an escrow agent as a pledge to the Company by Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh, immediately after the expiration of the Lock-up Period, and HK\$2,035,000 Sale Shares proceeds to be placed with an escrow agent as a pledge to the Company by Loh & Loh.**

In addition, the Group entered into another project development co-operation agreement with Jin Tian Cheng, an independent third party to the Group which is owned as to 10% by North Anhua. In August 2001, approximately HK\$17 million was provided by the Group to Jin Tian Cheng for the development of the motor vehicles maintenance and service centre in Fuzhou Municipality of Fujian Province.

In December 2001, the Group, Jin Tian Cheng and North Anhua entered into a project development co-operation agreement in supplement to the agreement entered into between the Group and Jin Tian Cheng in August 2001. Pursuant to the said project development co-operation agreement, Jin Tian Cheng will provide the land and be responsible for the construction of the maintenance and service centre thereon while the Group will be entitled to use the land and building for 20 years (as opposed to 50 years as agreed between the parties under the agreement of August 2001), Jin Tian Cheng agreed to repay the Group approximately HK\$11 million by October 2002, out of which, an approximate amount of HK\$3.3 million has been received as at the Latest Practicable Date. The approximately HK\$6 million provided by the Group will be used to subsidise and finance the construction cost and will be treated as the rental prepayment of the Group for the 20 years' use of the maintenance and service centre. In addition, a monthly rent of RMB10,000 will be paid per month according to the agreement. Currently, Jin Tian Cheng is preparing the construction plan which will be submitted to relevant PRC authorities for approval in June 2002. The construction is expected to commence in July 2002. Jin Tian Cheng is in the process of obtaining appropriate title certificates for such land. Pursuant to the project development co-operation agreement, Jin Tian Cheng is obliged to return the said approximate amount of HK\$6 million to the Group if it fails to perform the project development co-operation agreement or complete the construction of the project contemplated thereunder by December 2002. In April 2002, considering the construction progress of the development co-operation projects, the Group entered into a supplemental agreement with Jin Tian Cheng and North Anhua to amend the said project development co-operation agreement. Pursuant to the said supplemental agreement, the deadline for Jin Tian Cheng to obtain appropriate title certificates in accordance with the terms of the said project development co-operation agreement is extended to June 2003. The Directors confirm that there will be no further postponement of the projects. However, there is no assurance that Jin Tian Cheng will be able to complete the said project or fulfil its obligations in accordance with the terms of the project development co-operation agreement. Nevertheless, North Anhua has agreed to guarantee the performance and discharge Jin Tian Cheng of its obligations under the project

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development co-operation agreement. Mr. Loh Kim Her and Mr. Anthony Chan have undertaken to indemnify the Group in the event that North Anhua fails to repay the Group under the said guarantee amount of HK\$7.965 million by 31st October, 2002 and/or repay the said approximate amount of HK\$6 million to the Group if Jin Tian Cheng fails to perform the said project development co-operation agreement or complete the project contemplated thereunder. **In order to further secure such indemnity, Mr. Loh Kim Her, Mr. Anthony Chan and Loh & Loh will place, immediately after the expiration of the Lock-up Period, with an escrow agent 12,484,000 Shares and Loh & Loh will place with an escrow agent of HK\$7,965,000 Sale Shares proceeds as security for such indemnity.**

The PRC legal adviser opined that so long as the Chinese partners fully comply with the PRC laws and regulations during the process of the construction and strictly comply with the land purchase agreement, there should be no deterrent that prevents the Chinese parties from obtaining the land title certificates. As at the Latest Practicable Date, no land title certificates has been obtained and there is no assurance that the Chinese partners would be able to procure such title certificates or refund any money to the Group. If so, any delay in the identification of appropriate land and buildings as replacements or any write off may cause adverse impact in the business operations of the Group.

II. *Termination to use the service centres as stipulated in the development co-operation agreements*

According to the Company, the service centre in Fujian Province will be used as the replacement of the current service centre in the Xiamen Special Economic Zone, the service centres in Beijing Municipality and Guangdong Province will be used for servicing car rental business and the service centre in the Fuzhou Municipality will be used for as an additional showroom and service centre for the BMW passenger vehicles. Should the Group decide not to use such buildings at any time prior to the expiration of the said period for reasons other than CNA Anhua (Hertz) or Jin Tian Cheng's failure to perform in accordance with the respective project development co-operation agreement, the Group's financial position may be adversely affected as it will not be able to amortise the said rental prepayment under such circumstances and might have to write off the remaining balance of the rental prepayment although there is no break clause stipulated in the said co-operation agreements.

III. *Corporate guarantees provided to Hertz*

The Group, as the principal licensee of the Hertz System, has given corporate guarantees to Hertz to secure the performance and timely payment by the three sub-licensees of the Hertz System appointed by the Group of all amounts payable to Hertz under the respective sub-licensee agreements. These sub-licensees are subsidiaries of North Anhua.

Pursuant to the sub-licensee agreements between Hertz and the sub-licensees, among other things, the said sub-licensees are required to pay (i) an initial fee; and (ii) the higher of either a license fee or a minimum annual fee to Hertz. The Group has however entered into management agreements with each of the sub-licensees pursuant to which the sub-licensees shall be obligated to comply with their payment obligations as stipulated in the sub-licensee agreements with Hertz, failing which, the sub-licensees shall pay to the Group default payment.

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Should any of these three sub-licensees fail to perform or meet its obligations under the said sub-license agreements, the Group's financial position will be adversely impacted.

Manufacturing plant set up by BMW and other suppliers in the PRC

In order to enjoy the advantage of cost competitive labour in the PRC, many foreign motor vehicle manufacturers have set up their manufacturing plants in the PRC. BMW AG has recently announced a preliminary plan to form a joint venture company with a PRC company in which each party shall have an equal interest in a manufacturing plant to be set up in the PRC. BMW AG has informed the Group that once the said joint venture company commences production of 3 and 5 Series models of BMW passenger vehicles, which is expected in early 2003, such models will be excluded from the list of models to be supplied by BMW AG to the Group under the BMW Importer Contract. However, the Group will still be supplied with BMW passenger vehicles other than 3 and 5 Series models for import into the PRC.

The Group mainly distributes imported 3, 5 and 7 Series of BMW passenger vehicles to the PRC market in the Track Record Period. For each of the two years ended 31st December, 2000 and 2001, revenues generated from the Group distribution of series 3, 5 and 7 Series and X5 of BMW passenger vehicles are set out below:

	No. of motor vehicles	FY2000 <i>HK\$'000</i>		No. of motor vehicles	FY2001 <i>HK\$'000</i>	
3 Series	3	957	3%	72	13,881	11%
5 Series	47	12,726	36%	204	54,264	42%
7 Series	53	21,882	61%	135	49,491	38%
X5	—	—	—	30	11,176	9%
	<u>103</u>	<u>35,565</u>	<u>100%</u>	<u>441</u>	<u>128,812</u>	<u>100%</u>

The Group's business of distribution of imported BMW passenger vehicles may be adversely affected in the future if such joint venture company starts to manufacture BMW passenger vehicles in the PRC or the Group is unable to obtain the authorised dealer license from such joint venture company and engage locally licensed resellers for distribution of such locally manufactured BMW passengers vehicles from the said joint venture company. There is no assurance that the Group will be offered such a dealer license or such arrangement complies with the PRC law. In the event that the 3 and 5 Series of the BMW passenger vehicles are excluded from the Group's BMW motor vehicles distribution business in the PRC, the commercial viability of the Group may be adversely affected.

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The Group's turnover derived principally from distribution of various brands of imported passenger vehicles. Like BMW AG, other foreign passenger vehicles suppliers of the Group may also set up their respective manufacturing plants in the PRC in the future. In the event that such suppliers start to locally manufacture their respective passenger vehicles in the PRC, there is no assurance that the Group will be offered the rights to distribute such suppliers' passenger vehicles. Accordingly, the Group's profitability may be adversely affected.

Breach of BMW Importer Contract

The Group has breached the BMW Importer Contract by i) distributing other brands of automobiles and parts to resellers inside and outside the Fujian Province including Hong Kong and ii) distributing BMW automobiles and parts to resellers who have not been authorised by BMW AG.

The Group has obtained the BMW Waiver Letters from the BMW Group acknowledging the Activities and waiving all the breaches in relation to the Activities. Pursuant to the BMW Waiver Letters, the BMW Group confirmed that it will not impose any penalty as stipulated in the BMW Importer Contract now or in the future in respect of any breaches of the Activities whether committed in the past or to be committed in the future and it has tolerated the Activities and will continue to tolerate the Activities in the future unless and until it notifies the Group in writing.

In the event that the BMW Group notifies the Group to discontinue the Activities, the Group's financial position is likely to be adversely affected.

Reliance on sales of BMW passenger vehicles

A substantial part of the Group's profits derived from the sales of BMW passenger vehicles. 50.8% of the sales revenues received by the Group in year 2001 derived from the sales of BMW passenger vehicles. In view of the confirmed orders received by the Group to date, it is anticipated that the orders for BMW passenger vehicles will represent a dominant proportion up to 82.5% of the Group's sale revenues in year 2002. The Group's profitability may be adversely affected if the Group is unable to secure distribution rights from BMW AG in the future or if demand for BMW passenger vehicles drops.

Competition

The Group may face significant competition from other authorised distributors and other appointed importers of overseas manufacturers. One of the entry barriers to the business of the Group is the granting of distribution authorisations and appointment as importers by overseas manufacturers. The rights given to the Group under most of their existing distribution authorisations are non-exclusive and are subject to annual renewal. Currently, there are approximately 5 authorised BMW distributors, 2 authorised Land Rover distributors and 20 Honda passenger vehicles importers in the PRC which are engaged in distributing the Group's products. Any intensification in competition could dilute the Group's market share and lead to price reductions and increased expenses in marketing and distribution network development. Any of these events could have material adverse effect on the Group's financial condition and profitability.

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Reliance on North Anhua

The Group has established close working relationship with North Anhua. The Group provides management consultation and technical assistance to North Anhua and its distributing agents for the promotion and maintenance of locally manufactured Honda passenger vehicles distributed by North Anhua in exchange for technical fees pursuant to a non-exclusive management consultation and technical service agreement entered into between the parties in January 2000 for a term of 5 years. The technical fees are calculated based on a mutually agreed percentage, which is currently around 13% (5% to 15% pursuant to the technical agreement), over the sales of the locally manufactured Honda passenger vehicles distributed by North Anhua. The current percentage is based on the Group's internal pricing model that comprises various kinds of fees including engineers, technicians, administration and marketing, and is calculated on a cost plus margins basis. The current allocation of the 13% technical fees is approximately 5% for engineers, 2% for technicians, 3% for administration and 3% for marketing. The current technical fee is subject to revision should there be a change in the Company's cost structure in providing such services or government regulation.

A substantial part of the Group's turnover received from North Anhua attributes to the technical fee income under the said non-exclusive management consultation and technical service agreement. The Group's financial condition and profitability may be adversely affected should the said non-exclusive management consultation and technical service agreement be terminated prior to the expiration of its term for whatever reason or should North Anhua refuse to renew the same after it expires. Since the amount of the technical fee income is based on the sales price of the locally manufactured Honda motor vehicles sold by North Anhua, the Group's profitability may also be adversely affected if such sales of North Anhua are slowdown or if North Anhua shifts its business focus.

	FY2000	FY2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Technical fee income	27,696	20,413
Distribution of motor vehicles	3,914	—
	<u>31,610</u>	<u>20,413</u>
 % of the total Group turnover	 25.3%	 8.0%
 Total Group turnover	 <u>124,975</u>	 <u>253,784</u>

Currently the Group is not allowed under the existing PRC law to directly carry out car rental operations in the PRC. Therefore, the Group also relies on the subsidiaries of North Anhua as the sub-licensees which operate the car rental business in the PRC. There is no assurance that co-operative relationship between the Group and North Anhua will not be interrupted in the future. Should the aforementioned events occur, the business of the Group would be adversely affected.

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In addition, in the event that the management consultation and technical service agreement will not be renewed after its expiration, the Group's financial position is likely to be adversely affected.

Distribution arrangement with resellers in Hong Kong and the PRC

The Group distributes passenger vehicles into the PRC through the assistance of resellers in Hong Kong and the PRC. Besides North Anhua, all distribution arrangement with resellers are made on a case-by-case basis, no formal distribution agreements were entered between the Group and the resellers. The distribution arrangements are on an ad hoc basis and may cease at any time. In the event of any resellers in Hong Kong or the PRC decides to terminate distribution arrangement and ceases to sources passenger vehicles from the Group, the business operation of the Group may be adversely affected.

Reliance on the PRC market for motor vehicles distribution

During the Track Record Period, the Group's operations have been focusing on the PRC market and will continue to do so in the near future as illustrated in the section headed "Statement of Business Objectives", given that the Group distributes left-handed drive vehicles which will be ultimately sold in the PRC. The PRC is the major market for the Group's operations, where the Group has a potential exposure to the conditions of the PRC economy. Since there is no assurance in the economic, political and social conditions of the PRC, any changes in such conditions may adversely affect the Group's profitability and performance.

Outstanding tax payment

The Group has been delaying its tax payment due to the Inland Revenue Authority of Singapore since 1997 as a result of the lack of proper accounting control during the time when the Group's accounting staff made certain injudicious assessments on filing and journalising tax returns in the past. As at 31st December, 2001, the tax payable by the Group to the Inland Revenue Authority of Singapore amounted to HK\$13,022,000. Such provision for outstanding tax payment balance has been fully made in the accountants' report, and on the ground of prudence, a maximum of up to 17% penalty for such late tax payments which amounts to approximately HK\$1,528,000 has been provided in the accountants' report. The Group intends to settle the outstanding tax balance by the end of 2002 by monthly installments. As at the Latest Practicable Date, approximately HK\$454,000 has been settled by the Group. There is no written confirmation from the Inland Revenue Authority of Singapore agreeing to the Group's proposed tax repayment schedule. Should the Inland Revenue Authority of Singapore require the Group to repay all outstanding tax balance immediately or in the event that any legal proceeding or claim is brought by the Inland Revenue Authority of Singapore against the Group in relation to the outstanding tax payment, the Group's financial conditions are likely to be adversely affected.

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Hertz car rental agreement

The Hertz car rental agreement entered into between Hertz and CNA Anhua (Tianjin) in August 2001 is subject to renewal by Hertz after the 5 year term. Should Hertz decide not to renew the principal license agreement with CNA Anhua (Tianjin) after the 5 year term, the Group will not be able to sub-license the car rental system to authorised car rental operators with which the Group has a profit sharing arrangement for providing management consulting services to sub-licensees with respect to the operation of Hertz car rental system. There is no guarantee that the principal license entered into with Hertz will be renewed after August 2006, and if the principal license is indeed not renewed, the Group's financial position and business expansion plan will be adversely impacted.

Marketability of car rental business

The Group's involvement in car rental business as described under "Future Plans and Prospects" is at the introductory stage and there is no guarantee that the services will be well received by the market. Given that the Group is relatively new in the operation of car rental business in the PRC and its experience therein is relatively less in comparison to its operation of and experience in other principal lines of motor vehicles businesses, there is no assurance that the Group will be successful in such business. The local car rental companies in the PRC may also develop their own nationwide car rental systems in competition with such business of the sub-licensees. In addition, the ability of the sub-licensees to achieve and maintain a competitive position in the provision of its services depends on its ability to develop new services that satisfy the market's demands at competitive prices, failing which the Group's financial condition and prospects may be adversely affected as the Group is entitled to receive management and consulting fees derived from the after-tax profit of the sub-licensees.

Financial guarantees provided to third parties

As illustrated in the "Use of Proceeds" section in this prospectus, approximately HK\$6 million will be deposited with a bank in Hong Kong as security for banking facilities granted by the correspondent branch of the bank in the PRC to finance the car rental business of certain appointed sub-licensees of the Group. Since these sub-licensees do not provide the Group with any security for such deposit, in the event that such sub-licensees default in their payments, the Group has the obligation to repay the bank on behalf of the sub-licensees up to a maximum of HK\$6 million being the amount deposited with the bank, the financial condition of the Group will thus be adversely affected as no security is received from the sub-licensees with respect to such deposit.

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Each of the Group, Mr. Anthony Chan, Mr. Loh Kim Her and Mr. Loh Nee Peng has provided guarantee in favour of The Development Bank of Singapore Limited in respect of banking facilities granted to Beijing China National Automotive Anhua Spare Parts Ltd., formerly a 55% owned joint venture of the Group which was disposed of to Super Yield Trading Co., Ltd, an independent third party to the Group and North Anhua in June 2000. The remaining 45% equity interest in the joint venture is held by CNA Anhua (Hertz). Since CNA Anhua (Hertz) is interested in 71.4% of CNA Anhua (Beijing), which in turn is interested in 90% of each of CNA Anhua (Shanghai) and CNA Anhua (Guangzhou), the banking facilities provided to Beijing China National Automotive Anhua Spare Parts Ltd. can be used in connection with the car rental business by the 3 car rental sub-licensees and is in line with the purpose of the such banking facilities as stipulated in the letter from the bank to the Group, namely to partly finance the Group's Hertz operations in the PRC. The amount of guarantee was approximately HK\$21,809,000 and HK\$34,550,000 as at 31st December, 2000 and 2001 respectively. Such guarantee arrangement will not continue after listing of the Shares and the bank has agreed in writing to consider to release such guarantees subject to the replacement of the guarantors to the satisfaction of the bank. The Group did not receive any security from Beijing China National Automotive Anhua Spare Parts Ltd. Should Beijing China National Automotive Anhua Spare Parts Ltd. default in its loan repayment, the Group is obligated to repay such loan on behalf of Beijing China National Automotive Anhua Spare Parts Ltd., and the Group's financial position will be adversely affected. Nevertheless, The Development Bank of Singapore Limited has confirmed that it will unconditionally release the bank guarantee provided by the Group on behalf of Beijing China National Automotive Anhua Spare Parts Ltd. upon the listing of the Company on GEM.

Personal guarantees provided by Directors and their respective associates

In relation to the bank guarantees provided by the Directors and their respective associates as mentioned in the paragraph headed "Connected Transactions" under the section headed "Business of the Group" of this prospectus, all the banks have agreed in writing that the personal bank guarantees provided by the Directors and their respective associates will be released upon listing of the Shares. However, the release of such personal guarantees are subject to several conditions which include the capacity and financial ability of the Group to be substituted as guarantor for such banking facilities. Approximately HK\$111 million of loan the repayment of which is guaranteed by the Directors and their respective associates remained outstanding as at 31st December, 2001. Should the banks consider that the Group does not have the capacity and financial ability to be substituted as guarantor for the Group's banking facilities, the personal bank guarantees provided by the Directors and their respective associates will not be released. Should the Directors and their respective associates revoke any of the guarantees provided in favor of the banks, the financial resources stability of the Group will be adversely affected.

Dependence on key executives

The Group's success is, to a significant extent, attributable to its management which comprises a handful of experienced senior executives including two of the executive Directors, namely Mr. Loh Kim Her and Mr. Anthony Chan, who are responsible for the distribution business and liaising distributorship of the Group. The loss of the services of any of its key personnel could have a material adverse impact on the Group's operations.

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Distribution arrangement of Honda, Toyota and Mercedes-Benz passenger vehicles

In relation to the appointment of importer for Honda passenger vehicles in the PRC market, there is no formal distribution agreement signed between Honda Motor Co., Ltd and the Group. The distribution arrangement between Honda Corporation and the Group is made on a case-by-case basis and may be terminated by either party. Honda Motor Co., Ltd may terminate such arrangement if the Group fails to perform up to standard satisfactory to Honda Motor Co., Ltd. In the event that such distribution arrangement is not agreed upon in the future, the business and profitability of the Group could be adversely affected.

For the Group's distribution of Toyota and Mercedes-Benz passenger vehicles, there are no formal agreements between the Group and the suppliers of Toyota and Mercedes-Benz passenger vehicles. The sourcings of Toyota and Mercedes-Benz passenger vehicles are made on a case-by-case basis. If the supplies of these suppliers are not stable, the business and profitability of the Group could be adversely affected.

Violation of certain PRC laws regarding provision of technical services

Prior to the enactment of the Administration of Technology Import and Export Regulations of the PRC ("New Regulations") passed by the State Council on 31st October, 2001 (effective as of 1st January, 2002), the provision of technical services by foreign companies to PRC companies is subject to the Regulations on the Administration of Technology Import Contracts of the PRC ("Old Regulations") promulgated by MOFTEC which required approval of all technical import agreements by MOFTEC. The Group has been providing technical services to North Anhua in relation to the sales of locally manufactured Honda passenger vehicles of North Anhua since January 2000 whereas the Group obtained the approval from MOFTEC in providing technical services to PRC companies in September 2000. By providing technical services to North Anhua before it obtained approval from MOFTEC, the Group was in violation of the Old Regulations. There is no detailed provision in the PRC law concerning the penalty of such violation. Under the New Regulations, the MOFTEC registration of technical service agreements is no longer a condition precedent for the same to become effective and that the technical services provided by the Group to North Anhua is no longer subject to approval. It is the understanding of the PRC legal adviser to the Company and the Directors believe that the relevant PRC authority will not impose penalty on the Group in respect of such violation which was committed by the Group prior to the enactment of the New Regulations based on precedents and past experience in practice. However, there is no guarantee that the relevant authority will not impose penalty on the Group in the future in relation to such violation and the Group's commercial viability regarding the provision of technical services may be adversely affected should the Group be prosecuted or made liable to any penalty in the future.

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Lack of appropriate title certificates for the Xiamen BMW service centre

Neither the Group nor its Chinese partner of Xiamen BMW has the title to the land and building occupied by Xiamen BMW due to the historical reason left over from the 1970's land grant from the then revolutionary authority. The Chinese partner of Xiamen BMW has agreed to take positive action to procure the appropriate title certificates and has also undertaken to Xiamen BMW in relation to the use of such land and buildings such that if Xiamen BMW is evicted from such land and buildings in the future, the Chinese partner will lease or procure the lease of other land and buildings for use by Xiamen BMW at the Chinese partner's expenses, and indemnify Xiamen BMW for any loss it may suffer. There is no assurance that the Chinese partner would fulfil such obligations. In the event of eviction, any delay in the relocation to appropriate land and buildings may cause adverse impact in the business operations of Xiamen BMW.

Use of Proceeds

According to the schedule of proceeds, the net proceeds will be fully utilised in December 2003. No proceeds will be allocated for the business developments of the Group starting from 2004 onwards. For the business objectives in 2004, the Group expects that approximately HK\$3 million will be needed to fund the business development projects. Those business development projects will be funded by internal generated funds and banking facilities. There is no guarantee that the internal generated funds and the Group's banking facilities will be sufficient to support those business developments in 2004 and beyond. Should such event occur, the Group's financial position and performance may be adversely affected.

Seasonality

The car distribution business of the Group is moderately correlated to the customers' business operating results. Normally, the peak seasons of the Group fall in the first and the third quarters of the year. Customers usually place orders in the first and the third quarters of the year after the release of their interim and annual business financial results so as to assure their financial position in making capital expenses. As a result, the second and fourth quarters may usually be considered to be low seasons of the Group's car distribution business. It is possible that, due to seasonal fluctuations, the Group may not be able to generate sufficient revenue to cover its expenses during certain periods of the year.

Credit risk

The Group offers credit terms to its customers, generally between 60 days to 150 days. These accounts receivable have been increasing and represent approximately 45% and 43% of the Group' total current assets as at 31st December, 2000 and 2001 respectively. The Group maintains a credit control policy, salient features of which include: (i) transactions with new agents/customers are carried out on a strict cash-term basis; (ii) thorough studies are conducted on the creditworthiness of new agents/customers before credit terms are provided to them; (iii) reminders will be sent to agents/customers whose payments to the Group become overdue; and (iv) legal advices will be sought on the Group's actions towards delinquent accounts. The amounts unsettled as at the Latest Practicable Date are due from long-term customers

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who have not been in default in their payments in the past. Besides, the Group maintains close business relationship and has on-going business with them and they are committed to repay with an agreed terms. The Directors believe that the risk for them to default their payment is minimal, therefore no provision is made for the unsettled balance. There is no assurance that the Group will be able to collect its accounts receivable. The Group's financial position may be adversely affected if the Group experiences difficulties in realising its receivables in the future. Debtor aging analysis as at 31st December, 2001 and the respective subsequent settlement are set out as below:

Aging	Balance 31st December, 2001 HK\$'000	Receipts Up to the Latest Practicable Date HK\$'000	Balance Latest Practicable Date HK\$'000
0-1 month	6,123	(3,065)	3,058
1-2 months	3,041	(16)	3,025
2-3 months	23,002	(790)	22,212
3-6 months	15,200	(10,035)	5,165
6-9 months	8,291	(2,205)	6,086
9-12 months	6,352	(3,906)	2,446
over 12 months	6,224	(5,773)	451
Provision for doubtful debts	(1,556)	—	(1,556)
	<u>66,677</u>	<u>(25,790)</u>	<u>40,887</u>

Out of the total account receivable of approximately HK\$67 million as at 31st December, 2001, approximately HK\$24 million (representing approximately 35.8% of the total net accounts receivable) was due from North Anhua. However, such amount has been fully repaid in May 2002.

Foreign exchange risk

The reporting currency of the Group is SGD. During the Track Record Period, the Group has recorded exchange gains of HK\$4,103,000 and HK\$2,157,000 for the years ended 31st December, 2000 and 31st December, 2001 respectively. Since the Group conducted its business transaction mainly in euro and US dollar, such exchange gains resulted from the devaluation of Singapore dollar against the euro and US dollar. However, such exchange gains are highly dependent on the worldwide economic environment and there is no guarantee that euro and US dollar may not devalue against Singapore dollar in the future. However, as the Group does not maintain any hedging policy with respect to exchange rate risk, should euro and US dollar devalue in the future and the Group keep conducting business transactions in such currencies, the Group's may record exchange loss in the future, which may induce an adverse impact to the Group's financial position.

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Parallel imports

In the PRC, apart from the manufacturer-appointed distributors, motor vehicles can also be imported by any other individual or organisation which has the authority to engage in foreign trade and permission to import motor vehicles into the PRC. Motor vehicles that are imported into a country through parties other than the appointed distributors or import through unauthorised distributors are commonly known as parallel imports.

The existence of parallel importers affect the profit margins and market share generated by manufacturer-appointed distributors. The Group sees no significant sign that triggers the increase of parallel imports of motor vehicles into the PRC but it is possible that future growth in parallel importing of motor vehicles into the PRC could have adverse impact on the profitability of the Group.

New vehicle models

BMW AG, Honda Motor Co., Ltd. and Land Rover Group offer a wide range of passenger vehicle models. Over the years, BMW AG, Honda Corporation and Rover have established proven track records in respect of their respective abilities to introduce new and improved vehicle models at regular intervals.

The abilities of BMW AG, Honda Motor Co., Ltd. and Land Rover Group to continue to produce new and improved models at regular intervals in an increasingly competitive market place will have an impact on the profitability of the Group in the PRC.

Potential product recall

Product recall has been a common phenomenon in the manufacturing industry, especially in motor vehicles industry. If defect is found in any particular lot of motor vehicles, the manufacturer of that particular brand of motor vehicles will call back the motor vehicles in that lot to its maintenance centre for inspection and replacement for the defective part free of charge. Such recall of product will generally cause an adverse impact on the manufacturer's corporate image and thereby lowering consumers' confidence in that manufacturer's products. Should any products that the Group is distributing be subject to recall by its manufacturer, the sales of the Group will be adversely affected and the brand image that built upon the reliability of the motor vehicle could be unfavorably affected which in turn affect the profitability of the Group.

RISK FACTORS

RISKS RELATING TO THE PRC

Economic environment and political structure

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

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

Legal and regulatory considerations

The PRC's legal system is based on statutory law, under which previous court decisions may be cited as persuasive authority but do not have binding precedential effect. While considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade, such laws and regulations are relatively new. This fact combined with the limited number of published judicial interpretations and the non-binding nature of prior court decisions result in significant uncertainty in the interpretation and enforcement of such laws and regulations. There can be no assurance that the Group's business in the PRC will not be adversely affected by changes in such laws and regulations or the interpretation thereof.

The operation of car industry in the PRC is governed principally by the PRC Motor Vehicle Industry Policy promulgated in 1994. According to Article 7 of the said Policy which relates to the import administration policies, the PRC Government shall be entitled to take necessary administrative measures regarding importation of motor vehicles in the event that the domestic car industry becomes internationally uncompetitive. The PRC Government shall also be entitled to decrease the import tariff rate in accordance with the development status of the domestic car industry. The annual amount of the imported motor vehicles shall correspond to the State's manufacture plan of domestic motor vehicles. In the event that the PRC Government shall introduce administrative measures regarding importation of motor vehicles, which are less favorable than those presently applicable, increase the import tariff rate and reduce the annual amount of imported motor vehicles the Group's profitability may be adversely affected.

RISK FACTORS

Import regulations, import tariffs and trade restrictions

The PRC imposes restrictions on the import of foreign manufactured motor vehicles as well as auto parts and components. Only certain entities or persons with the authority to engage in foreign trade and permission to import are eligible to import motor vehicles into the PRC, and only in restricted quantities and subject to import tariffs, ranging from 43.8% to 50.7% for passenger vehicles, and auto parts and components. Any relaxation in such import restrictions or increase in import tariffs will lead to increase in selling price and thus may have an adverse effect on the Group's business. According to the Protocol on the Accession of the PRC published on 10th November, 2001, the import tariffs will be further reduced every year after China's entry to the WTO. There is, however, no assurance that such import tariffs will not increase in the future.

Under the current foreign investment policy of the PRC, neither foreign investment enterprises nor foreign companies is allowed to engage in trading of motor vehicles. According to the Protocol on the Accession of the PRC, trading restrictions in the PRC will be relaxed after China's entry to the WTO. There is, however, no assurance that trading restrictions will be relaxed favourably to the Group in the future.

In general, the car industry in the PRC is subject to various laws and regulations and that importation and trading of motor vehicles in the PRC are, in particular, subject to stringent restrictions. There is no assurance that the Group's business in the PRC will not be adversely affected if there are changes in the laws and regulations or policies in respect of the car industry in the PRC.

ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics derived from unofficial publications

Certain statistics in this prospectus relating to the motor vehicle industry, such as statistics relating to current and projected motor vehicle revenues in various jurisdictions as well as statistics regarding consumer preferences, are derived from various unofficial publications. Such information has not been independently verified by the Group and may be not accurate, complete or up-to-date.

Implementation of the Group's strategies in achieving its business objectives

This prospectus contains a section headed "Statement of business objectives" which sets out various future plans and milestones of development of the Group from the Latest Practicable Date to 31st December, 2004. These business objectives are based on existing circumstances and also on the bases and assumptions that certain circumstances will or will not occur, and the risks and uncertainties inherent in various stages of development of the Group's business.

RISK FACTORS

The Group's future plans and prospects must be considered in the light of these risks and uncertainties which may be encountered by the Group in its various expansion and development stages of motor vehicle distribution and car rental businesses. There is no assurance that the Group will be successful in implementing all its strategies or that its strategies, even if implemented, will lead to successful achievement of the Group's objectives. The Group's business operations and financial performance may be adversely affected if the strategies are not implemented in an effective and efficient manner.

Possible deviation in use of proceeds from the Placing from the intended use

The intended use of the proceeds from the Placing is set out under "Statement of business objectives – Use of proceeds of the Placing". It is the Directors' current intention to apply the net proceeds from the Placing in the manner as described in the aforesaid section. However, as new business opportunities arise or as unforeseen events occur, the Directors may (if they consider it to be in the best interests of the Group) reallocate all or part of the net proceeds to other business plans or new projects or to other uses or hold such funds in bank accounts, so that the actual application of the proceeds from the Placing may deviate from the intended use as described in this prospectus. In addition, the business plan of the Group as described under "Statement of business objectives" is based on assumptions of future events which by their nature are subject to uncertainty and there is no assurance that the plans of the Group will materialise as intended. The Group will issue an announcement in compliance with the requirements of the GEM Listing Rules in the event there is a material deviation in the use of the Placing proceeds from the intended use as described in this prospectus.