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## **RISK FACTORS**

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Potential investors should be aware in particular of the following special considerations:

### **Non-convertibility of currency**

Payments to the Company by Chinese investee companies will generally be made in foreign exchange. The primary source will be their foreign exchange income, which they will seek to maximise, but there will be times when this will be insufficient and will have to be supplemented by conversion of Renminbi income into Hong Kong dollars. Such conversion can generally be successfully carried out with counterparties at the Foreign Exchange Adjustment Centres in China. There is, however, no guarantee that such counterparties can be found at all times or that suitable rates of exchange can be obtained.

### **Remittance of profits out of China**

The outward remittance of profits and dividends by foreign investors and the repatriation of their investments are governed by relevant regulations in China. Generally speaking, foreign investors may remit out of China dividends derived from investments in joint venture companies in China. However, remittance by foreign investors of any other amounts (including, for instance, proceeds of sale arising from a disposal by a foreign investor of any of its investments in China) out of China may be subject to the approval of the head office of the State Administration of Exchange Control or its local branch office, and there is no certainty that such approval may be obtained at all times.

### **Political and/or regulatory risks**

The value of the Company's assets may be affected by political changes and changes in government policies, taxation, restrictions on foreign investment and on foreign currency repatriation, currency fluctuation and other developments in the laws and regulatory climate which may change without advance notice. Any such changes may affect the value and marketability of the Company's investments.

### **Economic risk**

The Chinese economy is still undergoing restructuring from a rigid, centralised, planned economy to a mixed economy. The entities in which the Company will invest may be sensitive to any general downturn in the overall economy or in that entity's industrial sector. Although the Company will attempt, through careful selection of investment candidates, to limit the risk associated with general economic conditions, substantial adverse economic conditions might have an impact on the investment assets of the Company.

### **Legal infrastructure**

Company law in China is in its infancy and varies from region to region. Shareholders in companies established in the PRC do not have the same level of protection or rights to information as in the case of United States, United Kingdom or Hong Kong companies and there can be no assurance that the Company will be able to obtain effective enforcement of its rights by legal or arbitration proceedings in the PRC.

### **Exchange rate risk**

The accounts of the Company will be denominated in United States dollars, whilst the Company's investments will generally be denominated in RMB and, accordingly, investment in the Company will be subject to fluctuations in the rates of exchange applicable to United States dollars, RMB and investors' base currencies.

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### **Reliability of information**

There is no assurance that the sources from which information contained in this prospectus are taken are wholly reliable. Official statistics may also be produced on a basis different to that used in Western countries. Any discussion of China in this document must therefore be subject to some degree of uncertainty due to doubts about the reliability of available official and public information.

### **Accounting, auditing and financial reporting standards**

Chinese accounting, auditing and financial reporting standards are different from and not equivalent to those applicable to United States, United Kingdom or Hong Kong companies. Less audited information will therefore be available to the Company than in respect of investments in the United States, United Kingdom or Hong Kong. Notable differences are found in areas such as provision for inventory obsolescence, preparation of consolidated accounts, valuation of properties and other assets, accounting for depreciation, deferred taxation and contingencies and treatment of exchange differences.

### **Emerging securities markets**

The Chinese securities markets are emerging markets which are undergoing a period of growth and change which may lead to trading volatility, difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. It is uncertain whether, how and to what degree the Company may be able to realise part or all of its investments by listings on a Chinese stock market. To the extent the Company invests in or holds investments, such as "B" Shares, which are listed on a Chinese stock market, its investment will be subject to the volatility of such market.

### **Illiquidity of Investment**

Investors should be aware that there are relatively few active investors on the Chinese securities market at present, in particular the Shanghai Securities Exchange and the Shenzhen Stock Exchange. "B" Shares of companies listed on the Chinese securities market can therefore be relatively illiquid and investors may have difficulties selling the "B" Shares.

### **Exchange rate movements**

Depreciation of the value of RMB against the US dollar, and in particular any future devaluation of RMB, may have a material effect on the earnings of the investee companies.

In recent months there has been a very significant devaluation of and volatility in RMB against the US dollar. A table to illustrate the level of fluctuation by showing the rates for US dollars to RMB quoted by the Shanghai Foreign Exchange Adjustment Centre on the dates shown, is as follows:

31st March, 1993	US\$1 = RMB 8.14
30th June, 1993	US\$1 = RMB10.52
2nd July, 1993	US\$1 = RMB10.40
9th July, 1993	US\$1 = RMB 8.50

### **Trade relations with the United States of America**

#### *Most-Favoured-Nation status*

Most-Favoured-Nation ("MFN") trading status is granted by the US Government on an annual basis to assist developing countries in trading with the US. Any nation that has been granted MFN status enjoys preferential duty rates for its exports to the US. Such status must be renewed by the US President by 3rd June each year and subsequently by the US Congress. The PRC currently enjoys MFN status without any conditions attached.

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However, under proposals currently put forward under the Mitchell-Pelosi Bill, PRC's MFN status would be granted until June 1994 but removal of MFN status would be required for Chinese enterprises at that time if the US President determined that PRC had failed to meet an extensive set of conditions.

It is believed that this bill is unlikely to be enacted because the US President may impose conditions on renewal of PRC's MFN status by Executive Order, which are unlikely to be as restrictive as those set forth in the bill. On 28th May, 1993, President Clinton, by Executive Order unconditionally renewed MFN status for the PRC. If conditions on renewal of PRC's MFN status were imposed or PRC's MFN status were revoked (and this is not likely until June 1994) with respect to Chinese state-owned enterprises, the Chinese Government may impose retaliatory trade restrictions against the US and this may affect bilateral trade between the US and the PRC and the effect on the PRC economy will be difficult to quantify.

### **General**

**Investors who wish to have fuller information regarding the risk factors inherent in investing in the PRC should seek independent advice.**