



Fireswirl

Technologies Inc.

Interim Management Discussion and Analysis – Quarterly Highlights

For the three and nine months ended September 30, 2019

November 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following interim Management's Discussion & Analysis ("Interim MD&A") of Fireswirl Technologies Inc. ("Fireswirl" or the "Company") for the three and nine months ended September 30, 2019 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management's discussion & analysis, being the Management's Discussion & Analysis ("Annual MD&A") for the fiscal year ended December 31, 2018. This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Interim MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Annual MD&A, Annual Information Form dated April 10, 2019 ("AIF"), audited annual consolidated financial statements of the Company for the years ended December 31, 2018, and December 31, 2017, together with the notes thereto, and unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2019, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements and the financial information contained in this Interim MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of November 28, 2019, unless otherwise indicated.

Additional information about the Company is available on SEDAR at (www.sedar.com) under Fireswirl Technologies Inc.

Special Note Regarding Forward Looking Statements

This Interim MD&A contains certain forward looking statements which reflect management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, level of activities, performances, achievements or other future events constitute forward looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "could", "should", "expect", "plan", "intend", "believe", "estimate", "potential" or similar words, have been used to identify these forward looking statements.

The Company cautions that the forward-looking statements reflect the current views and/or expectations of the Company with respect to its performance, business, and future events. Investors are cautioned that all forward looking statements involve risks, uncertainties and assumptions, including, without limitations: those relating to a limited operating history; an uncertain regulatory environment; a competitive environment, internet viability and system infrastructure and reliability; dependence on key personnel and foreign exchange fluctuations. These risks may cause the Company's actual results to differ materially from those projected in the forward looking statements. The Company does not undertake any obligations to release publicly any revisions for updating any voluntary forward looking statements.

Factors which could cause results or events to differ from current expectations include, among other things, the impact of government legislation, the impact of competition, the ability of the Company to retain and attract qualified professionals, the impact of rapid technological and market changes, loss of business or credit risk with current and perspective major customers, general industry and market conditions, growth rates, and currency rate fluctuations. The Company disclaims any intentions or obligations to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed or implied by the forward looking statements within this disclosure will occur, or if they do, that any benefits can be derived from them.

Past performance has been considered in drawing conclusions with respect to the forward looking statements contained in this Interim MD&A.

OVERVIEW

Fireswirl Technologies Inc. (NEX: FSW.H), “the Company”, was founded in 1999 and operated as a software development and project management company specializing in payment platforms and online gaming software for the internet. In 2006, the Company became a publicly listed company through a reverse takeover and a \$3.2 million equity financing accompanying its qualifying transaction.

In 2007, the Company formed its first wholly owned subsidiary in China to explore the rapidly emerging market. The Company has since increased its business presence in China gradually.

In 2009, the Company successfully completed its acquisition of 50% of all rights and interests of Beijing Xingchang Xinda Technology Development Co., Ltd. (“XCXD”), an e-commerce outsourcing and fulfillment solution provider in China, in consideration for 6,058,673 common shares of the Company. Fireswirl has majority voting rights and majority board control over XCXD according to the agreements related to the transaction.

In 2015, the Company completed the sale of its Shenzhen e-commerce platform for \$6,225,000 net of working capital adjustment. The Shenzhen e-commerce platform included: (i) equipment with carrying value of \$24,615; and (ii) goodwill, intellectual property, and customer lists and contracts with carrying value of \$nil. In conjunction with this transaction, the Company’s then chief executive officer, Mr. Tony Lau (“Mr. Lau”) was required to resign and join the purchaser as an employee.

Throughout the time from the acquisition of the Company’s controlling interest in XCXD to the present, XCXD incurred recurring losses and required financing from the Company to sustain its operations. Because of the recurring losses and the growing challenges relating to control of the strategic direction of XCXD and its continuing operations, the Company decided to sell its shares of XCXD back to XCXD’s non-controlling interest shareholders.

On February 29, 2016, the Company entered into a purchase and sale agreement (the “Agreement”), pursuant to which the Company agreed to sell its controlling interest in XCXD to the non-controlling interest shareholders of XCXD in consideration for an aggregate of 6,058,673 common shares of the Company held by its non-controlling interest shareholders (the “Purchasers”) and cash in the amount of RMB5,000,000 (equivalent to \$965,009) (the “Advances”) in exchange for a full settlement of XCXD’s outstanding indebtedness to the Company and its subsidiaries. An amendment to the Agreement was signed on April 5, 2016 to extend the closing date to December 31, 2016.

In December 2016, the Company again realized that the transactions contemplated by the Agreement would not close on December 31, 2016, as the Purchaser would not be able to repay all the Advances. The Agreement was again amended on December 31, 2016 and April 30, 2017 to extend the closing date.

The sale of the Company’s interest in XCXD was completed on May 31, 2017. The Company received the Consideration Shares and partial repayment of the Advances. Of the Advances, RMB3,500,000 (approximately \$675,500) was received (of which RMB1,300,000 was received by December 31, 2016, RMB1,700,000 was received during the three months ended March 31, 2017 and RMB500,000 was received in May 2017) and RMB1,500,000 (approximately \$289,500) was written off by the Company. The Consideration Shares returned to the Company were cancelled in May 2017.

The Company ceased its effective control over XCXD on January 1, 2017 after its second amendment to the Agreement in December 2016. During the negotiation with XCXD’s non-controlling interest shareholders to establish the second amendment to the agreement, it was renegotiated that the settlement amount is to be revised to RMB 3,500,000. As a result of signing the second amendment, XCXD management deemed that its obligation to share further corporate strategy updates and accounting records

were ceased starting with the new fiscal year on January 1, 2017. Control existed when the Company was exposed, and had the rights, to variable returns from its involvement with XCXD and had the ability to affect those returns. Given that the Company was no longer involved in the operations of XCXD, control ceased on January 1, 2017.

As at December 31, 2016, the Company's interest in XCXD was reported as assets and liabilities held for sale in the Company's statement of financial position. The operating results of XCXD for each quarter of 2016 and for the year ended December 31, 2016 were reported as discontinued operations. A loss from the sale of XCXD was also reported during the fourth quarter of 2016 to recognize the fair value of the Company's investment in XCXD.

On February 3, 2017, the Company entered into a share purchase agreement, pursuant to which the Company agreed to purchase an aggregate of 60% equity interest in AMZON (HK) Limited ("AMZON") for a total of HK\$7.2 million (approximately \$1.2 million) in three payment dates. The closing date is each of the first, second and third payment date. On March 16, 2017, the Company completed the first payment in the amount of HK\$4.8 million (approximately \$823,560) and acquired 40% of the equity interest in AMZON (the "First Payment Date"). On April 21, 2017, the Company completed the second payment in the amount of HK\$1.2 million (equivalent to \$208,438) and acquired additional 10% of the equity interest in AMZON (the "Second Payment Date"). On May 15, 2017, the Company completed the final payment in the amount of HK\$1.2 million (equivalent to \$210,175) and acquired the final 10% of the equity interest in AMZON. AMZON is a private company incorporated pursuant to the laws of Hong Kong Special Administrative Region of China and is in the business of providing multimedia and interactive marketing solutions, specializing in three dimensional visualizations, computer graphics and digital design.

On December 31, 2018, the Company decided to make available for sale all of its interest in AMZON (HK) Limited and Fireswirl Asia Ltd. Assets and liabilities, and the annual operating results for both subsidiaries, as well as Fireswirl Technologies (Shenzhen) Co. Ltd and Fireswirl Technologies (Beijing) Co. Ltd of which 100% interest were held by Fireswirl Asia Ltd., were included in discontinued operation results.

On January 15, 2019, the Company consolidated its common shares on a basis of 50 old shares to 1 new share.

In March 2019, the Company's subsidiary Fireswirl Technologies (Shenzhen) Co. Ltd. was dissolved.

On May 23, 2019, the Company completed the debt settlement described in its news release of April 18, 2019. The Company issued an aggregate of 1,612,034 common shares at a deemed value of \$0.135 per share to settle outstanding debt totaling \$217,624.97.

On July 12, 2019, the Company sold its 60% equity interest in Amzon (HK) Limited for nominal consideration. The company had substantially impaired the value of its AMZON interest on its books as at the year ended December 31, 2018 and recorded the interest as an asset held for sale. The Company currently does not have an active business and is looking for new business opportunities.

In accordance with TSX Venture Exchange Policy 2.5, the company has not maintained the requirements for a TSX Venture Exchange Tier 2 company. Therefore, effective July 22, 2019, the company's listing transferred to the NEX. As of July 22, 2019, the company is subject to restrictions on share issuances and certain types of payments as set out in the NEX policies. The trading symbol for the company will change from FSW to FSW.H.

THIRD QUARTER HIGHLIGHTS

- For the three months ended September 30, 2019 ("Q3 2019"), total income was \$620,386 compared to loss of \$666,528 for the same period in 2018 ("Q3 2018") for the continuing operations.

Net income for three months ended June 30, 2019 for the discontinued operations was \$70,499 compared to loss of \$146,361 for the three months ended June 30, 2018.

FINANCIAL RESULTS

Continuing operations

Operating Expenses

Total operating expenses for the continuing operations for the three months ended September 30, 2019 was \$38,900 compared to \$75,182 for the three months ended September 30, 2018.

Total operating expenses for the continuing operations for the nine months ended September 30, 2019 was \$218,573 compared to \$362,550 for the nine months ended September 30, 2018.

Operating expenses consisted of general administration expenses, and sales and market expenses which are explained below.

General Administration

General administration expenses for the continuing operations decreased by \$26,919 to \$38,900 for the three months ended September 30, 2019 compared to \$65,819 for the same period in 2018.

General administration expenses for the continuing operations decreased by \$106,479 to \$218,573 for the nine months ended September 30, 2019 compared to \$325,052 for the same period in 2018.

The decrease was mainly due to the decrease of general administration activities and cost reduction initiatives in the continuing operations.

Sales and Marketing

Sales and marketing expenses for the continuing operations decreased by \$9,363 to \$nil in for the three months ended September 30, 2019 compared to \$9,363 for the same period in 2018.

Sales and marketing expenses for the continuing operations decreased by \$37,498 to \$nil in for the nine months ended September 30, 2019 compared to \$37,498 for the same period in 2018.

This decrease was a result of reducing the activities relating to the developing and exploring of new acquisition target in 2019.

Discontinued operations

Revenue

The Company reported total discontinued operating revenue of \$nil for the three months ended September 30, 2019 compared to \$34,561 for the same periods in 2018.

The Company reported total discontinued operating revenue of \$6,561 for the nine months ended September 30, 2019 compared to \$166,159 for the same periods in 2018.

This decline in discontinued operating revenue was primarily attributed to the significant reduction in sales during the three and nine months ended September 30, 2019 resulting from lowered demand from VR and AR applications market in Hong Kong.

Cost of sales

Cost of sales is presented as delivery charges and technical service charges and other related expenses under operating expenses according to their nature.

The cost of sale reported in discontinued operations was \$nil for three months ended September 30, 2019 compared to \$3,923 for the same periods in 2018.

The cost of sale reported in discontinued operations was \$4,710 for nine months ended September 30, 2019 compared to \$52,266 for the same periods in 2018.

The decrease of cost of sales was consistent with the decrease of operating revenue.

Operating Expenses

Total operating expenses for the discontinued operations decreased by \$98,789 to \$19,728 for the three months ended September 30, 2019 compared to \$118,517 for the same period in 2018.

Total operating expenses for the discontinued operations decreased by \$305,461 to \$113,288 for the nine months ended September 30, 2019 compared to \$418,749 for the same period in 2018.

Operating expenses consisted of general administration expenses, and sales and market expenses which are explained below.

General Administration

General administration expenses for the discontinued operations decreased by \$100,308 to \$17,958 for the three months ended September 30, 2019 compared to \$118,266 for the same period in 2018.

General administration expenses for the discontinued operations decreased by \$303,025 to \$96,059 for the three months ended September 30, 2019 compared to \$399,084 for the same period in 2018.

The decrease was mainly due to decrease of general administration expenses incurred by AMZON.

Sales and Marketing

Sales and marketing expenses for the discontinued operations increased by \$1,519 to \$1,770 in for the three months ended September 30, 2019 compared to \$251 for the same period in 2018.

Sales and marketing expenses for the discontinued operations decreased by \$2,436 to \$17,229 in for the nine months ended September 30, 2019 compared to \$19,665 for the same period in 2018.

Net Loss from discontinued operations

Fireswirl Asia Ltd. and AMZON (HK) Limited classified as held for sale as at September 30, 2019 and December 31, 2018. The Company reported a net income from discontinued operations of \$770,800 and \$799,929, respectively in the three and nine months ended September 30, 2019 compared to a loss of \$86,968 and \$299,200, respectively for the same period in 2018. The increase in net income is mainly due to the gain on settlement of debt of \$516,599 and \$637,432, respectively and the decrease of sales and operating activities in AMZON(HK) during the three and nine months ended September 30, 2019.

Net Loss from continuing operations

The Company reported a net loss from continuing operations of \$39,753 and \$179,543, respectively, for the three and nine months ended September 30, 2019 compared to \$75,314 and \$367,328, respectively for the same period in 2018.

The decrease of loss from continuing operations is because the decrease in general administration relating to AMZON acquisition as discussed above.

Total net loss

The Company reported a net income of \$731,047 and \$620,386, respectively, for the three and nine months ended September 30, 2019 compared to a net loss of \$162,282 and \$666,528, respectively, for the same periods in 2018.

CASH FLOW STATEMENTS

Operating Activities

Cash used in operating activities from continuing operations was \$76,978 and cash used in operating activities from discontinued operations was \$87,669 for nine months ended September 30, 2019.

Investing Activities

Cash provided by investing activities from continuing operations was \$85,197 and cash used in investing activities from discontinued operations was \$nil for the nine months ended September 30, 2019.

Financing Activities

There was no cash flows in financing activities from continuing operations and cash provided by financing activities from discontinued operations was \$39,803 for the nine months ended September 30, 2019.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2019, the Company had total liabilities of \$248,807. The Company had \$12,772 in cash and cash equivalents and working capital (defined as current assets less current liabilities) deficiency of \$212,994. The recent dramatic decline in the global economic environment results in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments are summarized in the "Contractual Obligations" section of this Interim MD&A. To the extent the Company is unable to cover its ongoing cash requirements through operations, the Company expects to raise additional equity financing to cover any shortfall. There can be no assurance that such financing and profitability will occur in the amounts and within terms expected.

The Company does not have commitments for capital expenditures as of September 30, 2019. The Company's capital resources consist of common share, contributed surplus, accumulated other comprehensive income and accumulated deficit.

CONTRACTUAL OBLIGATIONS

The Company entered into a rental agreement for its office in China with future aggregate minimum lease payment of \$3,403 that expired in May 2019.

RELATED PARTY TRANSACTIONS

The related party transactions are in the normal course of operations and are measured and recorded at the exchange amount of consideration agreed between the related parties. Related party transactions not disclosed elsewhere in these consolidated financial statements are listed below:

a) Due to related parties

	September 30, 2019	December 31, 2018
Amounts due to directors and officers included in accounts payable	\$ -	\$ 252,845

b) Key management compensation

Key management includes directors (executive and non-executive), chief executive officer and chief financial officer of the Company. The compensation paid or payable to key management personnel during the periods ended September 30, 2019 and 2018 is as follows:

Three months ended September 30,	2019		2018	
Salaries and fees:				
-Salaries and consulting fees	\$	22,500	\$	75,000
- Director fees		-		4,000
		22,500		79,000
Share-based compensation		-		2,826
Total	\$	22,500	\$	81,826

Nine months ended September 30,	2019		2018	
Salaries and fees:				
-Salaries and consulting fees	\$	61,500	\$	225,000
- Director fees		-		12,000
		61,500		237,000
Share-based compensation		-		6,693
Total	\$	61,500	\$	243,693

Key management personnel were not paid post employment benefits or other long-term benefits during the period ended September 30, 2019. As at September 30, 2019, the Company owed \$61,500 (December 31, 2018 - \$nil) to two directors which was included in the accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing with no fixed term of repayment.

CHANGES IN ACCOUNTING POLICIES

IFRS 16, Leases ("IFRS 16")

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. The Company adopted IFRS 16 on January 1, 2019 and adoption of this standard does not have material impact on the Company's unaudited condensed interim consolidated financial statements.

OFF BALANCE SHEET ARRANGEMENT

As at September 30, 2019 and the date of this report the Company has not entered into any off balance sheet arrangements.

FINANCIAL INSTRUMENTS

a) Fair value

Fair value is the amount at which a financial instrument could be exchanged between willing parties

based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the observable inputs used to value the instrument:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company's financial assets include cash and cash equivalents which are classified as amortized cost. The Company's financial liabilities include accounts payable and accrued liabilities which are all classified as financial liabilities at amortized cost.

The fair values of cash and cash equivalents and accrued liabilities, and due to related parties approximate their carrying values due to the short-term nature of these instruments. As at September 30, 2019, the Company did not have financial liabilities measured at fair value on a recurring basis.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalent, restricted cash, trade receivable and due from a related party.

The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions. Maximum credit risk related to cash and cash equivalents amounted to \$12,772 at September 30, 2019 (December 31, 2018 - \$4,553).

c) Currency risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign exchange rate when the Company undertakes transactions and hold assets and liabilities in currencies other than its functional currencies. The Company currently does not use derivative instruments to hedge its exposure to those risks. As at September 30, 2019, the Company is subject to immaterial currency risk as it did not have material assets or liabilities held in currencies other than its functional currencies.

d) Interest risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest risk as at September 30, 2019.

e) Liquidity risk

The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

As at September 30, 2019, the Company had total debt in the amount of \$248,807 due within 12 months (December 31, 2018 - \$990,583) and \$212,994 of working capital deficiency (December 31, 2018 - working capital deficiency of \$932,313) .

OUTSTANDING SHARE CAPITAL

As at the date of this report, the Company had 2,682,286 common shares, 46,000 stock options outstanding and exercisable. If all of the Company's exercisable options were exercised, the Company would have 2,728,286 common shares outstanding.

DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the three and nine months ended September 30, 2019 and this accompanying Interim MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

Important risks factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

Execution of the Business Plan

Although management of the Company has developed a business plan, there can be no assurance that the business plan will succeed in whole or in part. The Company continues to plan to undertake the expansion of its business by way of acquisitions. There can be no assurance that the Company will be able to complete the planned expansion within the expected timeframe or for the estimated costs set out in the Feasibility Study.

Future Capital Requirements

The development of the business of the Company will require substantial additional financing. The Company's future capital requirements will depend upon many factors, including maintenance, plant and product expansion, and expansion of its sales and marketing efforts. Failure to obtain sufficient financing may result in delaying, scaling back, elimination, or indefinite postponement of future programs. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Lending may be obtained from Chinese banks, government organizations, major shareholders or other debt markets; however, there can be no assurance that such loans will be obtained. In addition, there can be no assurance that the Company's business will generate sufficient cash flow from operations in the future to make necessary capital expenditures, in which case the Company may seek additional financing.

Competition

The Company expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and affecting business acquisitions directly or through affiliates. Competitors may introduce technological innovation in the Company's business, resulting in increased competitive pressures. Although the Company's projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of the Company. China can be a fiercely competitive market and any small price differentials between otherwise competitive goods and services can make an enormous difference to the consumer.

Foreign Operations

Currently, the Company's operations are conducted in the PRC and it is anticipated that this will continue to be the case. As such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; government corruption; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in investment policies or shifts in political attitudes in China may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, land use, land claims of local people and water use. Any events resulting in an adverse impact on the Chinese economy will likely have an adverse effect on the Company's profitability and prospects. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's business, financial condition and results of operations.

Marketing and Distribution Expertise

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers of the distinctive characteristics and benefits of the Company's products and services. The Company's long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. The Company will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Company will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

Protection of Intellectual Property Rights

Intellectual property rights in China are still developing and there are uncertainties involved in intellectual property rights protection and the enforcement of such protection. The Company will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated by a damages award.

In addition, please refer to the financial instruments section for the analysis of the financial risks factor.