

**Astron Connect Inc.**  
**Management's Discussion and Analysis**  
**For the Year ended September 30, 2021**

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This Management Discussion and Analysis ("MD&A") is prepared as at January 27, 2022 and should be read in conjunction with the consolidated financial statements of Astron Connect Inc. ("Astron" or the "Company") for the year ended September 30, 2021. Unless otherwise indicated, all dollar amounts are in Canadian dollars. Additional information relevant to the Company activities can be located on the company website at <https://www.astronconnect.ca/> or SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

This MD&A may contain certain forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, changes in government regulation, general economic conditions, general business conditions, limited time being devoted to business by directors, escalating professional fees, and escalating transaction costs. Readers are cautioned not to place undue reliance on forward-looking statements, which are effective only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Actual results may differ materially and adversely from those expressed in any forward-looking statements. The Company undertakes no obligation to revise or update any forward-looking statements for any reason.

### **Company History and Business Overview**

The Company was incorporated on February 20, 2017 under the Business Corporations Act (British Columbia) with one class of shares, being common shares without par value and was a capital pool company ("CPC") as defined by policy 2.4 (the "CPC Policy") of the TSX Venture Exchange ("Exchange").

On August 28, 2018, the Company completed a Qualifying Transaction (the "Transaction") to acquire and amalgamate with Sachiel Connect Inc. ("Sachiel Connect") which was approved by the Exchange. 1148535 B.C. Ltd, a wholly owned subsidiary of the Company, acquired all of the issued and outstanding securities of Sachiel Connect from its existing shareholders, and as consideration, the Company issued 3,637,499 common shares in the capital of the Company to the shareholders of Sachiel Connect.

On August 28, 2018, 1148535 B.C. Ltd. and Sachiel Connect were amalgamated as one company under the name Sachiel Holdings Ltd. ("Sachiel Holdings"). Sachiel Holdings remains a wholly owned subsidiary of the Company.

As a result of the Transaction, the former shareholders of Sachiel Connect acquired control of the Company. Therefore, the Transaction is considered as a reverse take-over. The Company has ceased to be a capital pool company since then. The consolidated financial statements of Astron represent a continuation of the business of Sachiel Connect. On August 24, 2018, the Company changed its name from Exalt Capital Corp. to Astron Connect Inc. and began trading under the symbol "AST" under the TSX Venture Exchange ("TSX.V").

The Company is engaged primarily in the business of distribution and sale of beverage and food products in Canada, China and Emerging markets.

Since December 31, 2019, the outbreak of the novel strain of corona virus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn.

The COVID-19 pandemic has impacted and could further impact our operations and the operations of our suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. The extent to which the

COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic; the effects of the COVID-19 pandemic on our suppliers and vendors and the remedial actions and stimulus measures adopted by local governments; and to what extent normal economic and operating conditions can resume. The management team is closely following the progression of COVID-19 and its potential impact on the Company. Even after the COVID-19 pandemic has subsided, the Company may experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future. Therefore, the Company cannot reasonably estimate the impact at this time our business, liquidity, capital resources and financial results.

On April 1, 2020, the Company completed a transaction to acquire all of the issued and outstanding shares of Manna Resources Inc. ("Manna"), a private company incorporated in BC. Manna Resources Inc. operates a bottled water trading business focused on the China and other Asian markets under the "Manna Water" brand. The purchase price of \$100,000 comprised of \$40,000 cash (unpaid) and \$60,000 worth of Astron common shares issued at a fair value of \$0.40 per share (a total of 150,000 shares). The transaction was accepted by the Exchange on April 27, 2020.

The head office, principal address and registered office of the Company are located at 500 - 666 Burrard Street, Vancouver, B.C., V6C 2X8.

### **Business Highlights:**

Highlights for the year ended September 30, 2021:

- Sales for the year ended September 30, 2021 were \$41,953 (2020 - \$401,383), a decrease of 90% from FY2020.
- Net loss of \$1,134,185 for the year ended September 30, 2021 (2020 – net loss of \$1,299,445), an improvement of 13% from FY2020.

### **Overall Performance**

The following discussion of the Company's financial performance is based on the consolidated financial statements for the years ended September 30, 2021 and 2020.

The consolidated statement of financial position as of September 30, 2021 indicates a cash and cash equivalents balance of \$952,475 (2020 - \$1,597,469), trade and other receivables of \$10,806 (2020 - \$329,655), inventory balance of \$66,103 (2020 - \$106,238), prepaid expenses and deposit of \$104,452 (2020 - \$72,263) and total current assets of \$1,133,836 (2020 - \$2,105,625). The decrease in total current assets was due mainly to the decrease of cash resulting from the funding of daily operations. The Company has also written off trade receivables of \$218,681 during the fiscal year in order to take a reserve for any potential issues.

Current liabilities as at September 30, 2021 totalled \$417,908 (2020 - \$589,685) which include deferred revenue of \$212,273 (2020 - \$217,273). Shareholders' equity is comprised of common shares of \$7,535,477 (2020 - \$7,535,477) and deficit of \$7,287,789 (2020 - \$6,153,604).

Working capital is \$715,928 (2020 - \$1,515,940). Management believes that the Company has sufficient working capital to maintain the Company's day-to-day operations for at least the next twelve months, however, will be required to raise additional funding if the Company does not generate profitable operations in 2022.

During the year ended September 30, 2021, the Company reported a net loss of \$1,134,185 (2020 - \$1,299,445). The decrease in net loss from operation is due mainly to a decrease of operational expenses.

The weighted-average number of common shares outstanding for the year ended September 30, 2021 was 10,437,901, compared to 9,254,500 for the year ended September 30, 2020.

## Factors Concerning the Company's Financial Performance and Results of Operations

The key performance indicators for the Company are revenue growth, EBITDA and net income. The success of the Company to expand will be measured by revenue growth. Revenue growth will be dependent on the Company being able to penetrate new markets and gain new customers through acquisitions, and continued development of its production offerings.

Management believes that net income is a measure of how efficiently and effectively the business is running. The Company is in a period of expansion and growth. Therefore, selling and general administration costs will increase over the next twelve months. To achieve an acceptable net income, management will need to balance the increase in selling and general administration costs and revenue growth. Net income is also viewed as an important measure for determining the value created for shareholders.

Management believes that in addition to revenue and net income, earnings from continuing operations before interest and finance costs, taxes, depreciation and amortization, other non-cash items and one-time gains and losses (for the purposes of the Company's MD&A, EBITDA) as derived from information reported in the statements of operations and comprehensive income is a useful supplemental measure as it provides an indication of the results generated by the Company's principal operating segments but also factors in the administrative expenses incurred during the period. It is believed that EBITDA will become a more meaningful metric in the future when it has had a chance to benefit from the planned marketing and development activities and the building of the required infrastructure to support recurring sales.

### **Selected Annual Information**

|                                 | <b>2021</b> | <b>2020</b> | <b>2019</b> |
|---------------------------------|-------------|-------------|-------------|
|                                 | \$          | \$          | \$          |
| Revenue                         | 41,953      | 401,383     | 1,276,475   |
| Operating expenses              | (980,292)   | (1,264,379) | (2,018,100) |
| Impairment of intangible assets | (114,476)   | (75,282)    | -           |
| Other income (expenses)         | (9,893)     | (13,519)    | 25,828      |
| Net loss                        | (1,134,185) | (1,299,445) | (1,756,450) |
| Basic and diluted EPS           | (0.11)      | (0.14)      | (0.28)      |
| Total assets                    | 1,195,051   | 2,531,610   | 1,866,927   |
| Total non-current liabilities   | 60,000      | 104,660     | -           |

For further financial information, please refer to the annual audited consolidated financial statements.

### *Revenue*

Revenue for the year ended September 30, 2021 was \$41,953 an decrease of 90% compared to \$401,383 for the year ended September 30, 2020. The decrease in revenue is due to the Company experiencing a slower demand for water and honey products as result of the economic effects of the Covid-19 pandemic in China and the volatility of international shipping costs.

### *Operating Expenses*

|                                    | <b>2021</b> | <b>2020</b> |
|------------------------------------|-------------|-------------|
| Advertising and promotion expenses | 5,758       | 256,396     |
| Amortization                       | 219,924     | 268,531     |
| Bad debt                           | 218,681     | 56,504      |
| Consulting expenses                | 80,800      | 70,002      |
| Director fees                      | 60,000      | 54,000      |
| Filling expenses                   | 28,878      | 27,351      |
| Meeting and conference expense     | 16,420      | 11,963      |
| Office expenses                    | 111,052     | 127,220     |

|                                   |          |           |
|-----------------------------------|----------|-----------|
| Professional fees                 | 50,040   | 63,994    |
| Rental expenses                   | (13,262) | (122,916) |
| Salary and benefits               | 169,842  | 398,371   |
| Selling and distribution expenses | 7,849    | 6,962     |
| Stock based compensation          | 14,063   | 46,001    |
| Foreign exchange gain or loss     | 10,247   | -         |
|                                   | 980,292  | 1,264,379 |

Overall, operating expenses decreased by \$284,087 compared to September 30, 2020, which is a result of the Management's decision to reduce advertising and promotion expenses, office expenses and salary and benefits. The decrease was offset by increases in a few expenses incurred in FY2021, i.e. foreign exchange gain or loss increased by \$10,247 in FY2021 (2020 - \$nil). The main fluctuations in operating expenses are as follows:

#### Advertising and promotion expenses

Advertising and promotion expenses decreased by \$250,638 for the year ended September 30, 2021, compared to the fiscal year 2020, primarily due to Management's decision to decrease advertising promotion expenses to promote the brand of "Manna Water".

#### Amortization

Amortization decreased by \$48,607 for the year ended September 30, 2021, compared to the fiscal year 2020.

#### Consulting expenses

Consulting expenses increased by \$10,798 for the year ended September 30, 2021, compared to the fiscal year 2020,

#### Office expenses

Office expenses decreased by \$16,168 for the year ended September 30, 2021, compared to the fiscal year 2020, primarily due to Management's decision to reduce overhead costs.

#### Professional fees

Professional fees decreased by \$13,954 for the year ended September 30, 2021, compared to the fiscal year 2020, primarily due to incurred less legal fees.

#### Rental expenses

Rental expenses increased in year 2021 compared to the fiscal year 2020, primarily due to the subleasing contract terminated during the year 2021.

#### Salary and benefits

Salaries and benefits decreased by \$228,529 for year ended September 30, 2021, compared with the fiscal year 2020, primarily due to a reduced headcount and a significant reduction in management salaries.

#### Stock-based compensation

Share based compensation decreased by \$31,938 for year ended September 30, 2021, compared to the fiscal year 2020, which was due to the fair value of unvested stock options decreased.

### Other loss

Other expenses in 2021 was \$9,893 (2020 - \$13,519) was primarily attributed to interest expenses.

### Net Loss

Net loss was \$1,134,185 for the year ended September 30, 2021 compared to \$1,299,445 for the year ended September 30, 2020. The decrease was primarily attributed to the decreased operating expenses as noted above.

## Summary of Quarterly Results

The following table presents unaudited selected financial information for each of the last eight quarters for fiscal 2021 and 2020:

|                   | September 30<br>2021<br>\$ | June 30<br>2021<br>\$ | March 31<br>2021<br>\$ | December 31<br>2020<br>\$ |
|-------------------|----------------------------|-----------------------|------------------------|---------------------------|
| Total Revenues    | -                          | -                     | 41,953                 | -                         |
| Gross profit      | 60,570                     | -                     | 10,907                 | -                         |
| Net income (loss) | (570,742)                  | (130,302)             | (178,422)              | (254,719)                 |
| Loss per Share    | (0.05)                     | (0.01)                | (0.02)                 | (0.02)                    |

  

|                   | September 30<br>2019<br>\$ | June 30<br>2020<br>\$ | March 31<br>2020<br>\$ | December 31<br>2019<br>\$ |
|-------------------|----------------------------|-----------------------|------------------------|---------------------------|
| Total Revenues    | 57,156                     | 325,998               | -                      | 18,229                    |
| Gross profit      | 40,431                     | 105,269               | -                      | 927                       |
| Net income (loss) | (381,885)                  | (73,957)              | (568,516)              | (275,087)                 |
| Loss per Share    | (0.02)                     | (0.00)                | (0.01)                 | (0.01)                    |

## Financing Activities

During the year ended September 30, 2020, the Company applied for the COVID-19 Relief Program. Export Development Canada (EDC) and the Business Development Bank of Canada (BDC) provided a direct loan to the Company ("CEBA Loan") of \$40,000. During the year ended September 30, 2021, the Company received an additional loan of \$20,000. The CEBA Loan has an initial term date on December 31, 2022 (the "Initial Term Date") and may be extended to December 31, 2025. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum thereafter during any extended term, which is calculated daily and paid monthly. The CEBA Loan can be repaid at any time without penalty. On January 22, 2022, the repayment deadline for CEBA loans has been extended to December 31, 2023.

## Liquidity

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at September 30, 2021 and 2020, the Company had a working capital of \$715,928 and \$1,515,940, respectively. The Company is focused on generating sales revenue through increase sales volume of current products and new products offerings and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

The following tables detail the remaining contractual maturities at the respective reporting dates of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Company can be required to pay:

|                                          | Carrying<br>amount | Contractual<br>cash flows | Less than<br>1 year | 1 - 3<br>years | 4 - 5<br>years |
|------------------------------------------|--------------------|---------------------------|---------------------|----------------|----------------|
|                                          | \$                 | \$                        | \$                  | \$             | \$             |
| Accounts payable and accrued liabilities | 156,939            | 156,939                   | 156,939             | -              | -              |
| Lease liability                          | 49,510             | 49,510                    | 49,510              | -              | -              |
| Government assistance                    | 60,000             | 60,000                    | -                   | 60,000         | -              |
| Total                                    | 266,449            | 266,449                   | 206,449             | 60,000         | -              |

### Capital Resources

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company has defined its capital as common shares, reserves and accumulated deficit.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to maintain appropriate cash reserves on hand to support continued operations and shareholder returns, maintain capital structure while keeping capital costs at a minimum, and to invest cash on hand in highly liquid, highly rated financial instruments. The company is not exposed to externally imposed capital restrictions, and the Company's objectives and strategies described above have not changed during the year. These objectives and strategies are reviewed on a continuous basis.

### Off Balance Sheet Arrangements

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

### Transactions with Related Parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

The following is a summary of balances and transactions with a director of the Company:

|                          | 2021    | 2020    |
|--------------------------|---------|---------|
|                          | \$      | \$      |
| <i>Transactions:</i>     |         |         |
| Director fees            | 60,000  | 54,000  |
| Salaries and benefits    | 105,000 | 140,750 |
| Stock based compensation | 9,375   | 30,821  |

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the estimated fair value amount, which is the amount of consideration established and agreed to by the related party.

### Fourth Quarter

Results for the three months ended September 30, 2021 and 2020 are as follows:

The loss in the quarter ended September 30, 2021 was \$570,742 compared to \$381,885 in same period in fiscal 2020. The increase in net loss was primarily attributed to the Company writing off accounts receivable and intangible assets during this quarter.

### Critical Accounting Estimates and Changes in Accounting Policies

All significant critical accounting estimates and change in accounting policies are fully disclosed in Note 3 of the consolidated financial statements for the year ended September 30, 2021.

### Financial Instruments and Financial Risk

#### Fair value of financial instruments

The Company classifies its fair value measurements in accordance with the three level fair value hierarchies as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;  
 Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and  
 Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents, trade and other receivables (excluding GST), accounts payable and accrued liabilities and due to related party approximates their carrying values as at the reporting date due to the short-term maturities of these instruments.

| Financial assets                          | Categories     | September 30, 2021 | September 30, 2020 |
|-------------------------------------------|----------------|--------------------|--------------------|
|                                           |                | \$                 | \$                 |
| Cash and cash equivalents                 | FVTPL          | 952,475            | 1,597,468          |
| Trade and other receivables (exclude GST) | Amortized cost | -                  | 307,230            |
| Financial liabilities                     |                |                    |                    |
| Accounts payable and accrued liabilities  | Amortized cost | 156,939            | 205,273            |
| Government assistance                     | Amortized cost | 60,000             | 40,000             |
| Lease liabilities                         | Amortized cost | 48,696             | 231,799            |

### Financial risk management objectives and policies

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### a) Currency risk

The Company generates revenues and incurs expenses primarily in Canada and China and is exposed to risk from changes in foreign currency exchange rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risk. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at September 30, 2021, the Company had cash of \$83,053 (2020: \$1,075), trade and accounts receivables of \$nil (2020: \$307,230), and accounts payable and other payable of \$nil (2020: \$nil), which are denominated in US dollars. For the year ended September 30, 2021, the Company's sensitivity analysis suggests that a change in the absolute rate of exchange in US dollars by 10% will increase or decrease comprehensive loss by approximately \$8,305 (2020: \$30,700).

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on cash equivalents is insignificant, as the deposits are short-term. The Company's \$60,000 loan (note 11) is non-interest bearing until December 31, 2022. Any amounts unpaid will be subject to 5% interest. The Company has not entered into any derivative instruments to manage interest rate fluctuations.

c) 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 equivalents and trade and other receivables. The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions. Credit risk is primarily associated with trade receivables, as the Company grants credit to its customers in the normal course of business. Credit risk on trade receivables is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. All trade receivables have been reviewed for indicators of impairment and the consolidated financial statements take into account an allowance for bad debts.

Except for the bad debt of \$218,681 (2020: \$56,504), there were no overdue trade receivables outstanding as at September 30, 2021 and 2020 and collection is reasonably assured.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at September 30, 2021, the Company had a working capital of \$715,928 (2020: \$1,515,940). The Company is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

### Summary of Outstanding Share Data

As at the date of this report, the Company's share capital is as follows:

- Authorized: Unlimited common voting shares without nominal or par value.
- Issued and outstanding 10,437,901 common shares

### Options

As at the date of this report, the Company has 237,500 options outstanding.

### Warrants

As at the date of this report, the Company has nil warrants outstanding.

### Risk Uncertainties

#### ***We have a limited operating history.***

Our limited operating history makes it difficult to evaluate our business and prospects and may increase the risks associated with your investment. We were incorporated in 2016 and, as a result, have only a limited operating history upon which our business and future prospects may be evaluated. Although we believe we will experience substantial revenue growth, we may not be able to reach the expected rate of growth or even maintain our current revenue levels.

We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges related to recruiting, integrating and retaining qualified employees; making effective use of our limited resources; achieving market acceptance of our existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers. Our current operational infrastructure may require changes for us to scale our business efficiently and effectively to keep pace with demand for our solutions, and achieve long-term profitability. If we fail to implement these changes on a timely basis or are unable to implement them effectively, or at all due to factors beyond our control, our

business may suffer. We cannot assure you that we will be successful in addressing these and other challenges we may face in the future.

***Our business is at an early stage of commercialization,***

We are still at an early stage of commercialization. There can be no assurance that we will meet its objectives. As in any early-stage development company, there is no assurance that our business will be successful.

***We have incurred losses and may continue to incur losses.***

Our operating results have fluctuated significantly in the past from quarter to quarter and may continue to do so in the future. In addition, we have experienced net losses since we have commenced our business operation, and such losses may very well continue

You should not rely on the results for any particular period as an indication of our future performance. It is possible that, in future periods, our results of operations may be below the expectations of public market analysts and investors. Fluctuations in our quarterly operating results or our inability to achieve or maintain profitability may cause volatility in the price of our common stock in the public market.

***We are subject to global trade sentiments.***

Our operations are dependent on the trade sentiment between Canada and the destination markets. As such this is an externality that we as a company cannot address directly.

***We may not be able to engage and retain sufficient buyers to drive revenue growth.***

If we are unable to attract significant numbers of new buyers and increase levels of engagement, our ability to maintain or grow our business would be materially and adversely affected. We may not be able to successfully monetize traffic on our platform, which could have a material adverse effect on our business. An increasing percentage of our users are accessing our marketplaces through mobile devices, a trend that we expect to continue. Our ability to monetize our mobile user traffic is critical to our business and our growth.

***We may not be able to maintain or grow our revenue or business.***

We will primarily derive our revenue from online marketing services, commissions based on transaction value derived from certain of our marketplaces and fees from the sale of memberships on our wholesale marketplaces.

Potential changes in our strategy for monetizing our wholesale marketplaces could result in prolonged reductions in revenue from those marketplaces. In addition, our revenue growth may slow or our revenues may decline for other reasons, including decreasing consumer spending, increasing competition, slowing growth of the China retail or China online retail industry, changes in government policies or general economic conditions. In addition, our revenue growth rate will likely decline as our revenue grows to higher levels.

***We are dependent on key personnel.***

We depend on key management as well as experienced and capable personnel generally, and any failure to attract, motivate and retain our staff could severely hinder our ability to maintain and grow our business. Our future success is significantly dependent upon the continued service of our key executives and other key employees. If we lose the services of any member of management or key personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth.

The size and scope of our ecosystem also require us to hire and retain a wide range of effective and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. We will need to continue to attract and retain experienced and capable personnel at all levels as we expand our business and operations. Competition for talent is intense, and the availability of suitable and qualified candidates is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation and other benefits, there is no assurance that these individuals will choose to join or

continue to work for us. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

***We are subject to changes general economic conditions***

The markets in which we operate are affected by changes in general economic conditions, including China's marketplace and emerging markets, and political and economic conditions, international, national, regional and local economic conditions, all of which are outside of our control. Economic slowdowns, cyclical trends, increases in interest rates and other factors could have a material adverse effect on our financial performance and financial condition.

***We are subject to governmental regulation.***

China and emerging markets government regulation can affect us. Failures to comply with applicable and new emerging regulatory requirements can, among other things, result in fines, suspension of regulatory approvals, seizures, operating restrictions and criminal prosecutions. All of the foregoing regulatory matters will also be applicable to development and marketing undertaken by any collaborative partners.

***Our research and market development may not prove to be profitable.***

There can be no assurances that our research and market development activities will prove profitable.