

Dongxing International Inc.
Form 8-K
October 14, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 30, 2016

DONGXING INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware	0-54112	16-1783194
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3F, No. 26, Hengshan Road, Nangang District, Harbin, Heilongjiang Province, P.R. China 150001

(Address of Principal Executive Office) (Zip Code)

86-1394-000887

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

.. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

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- “ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- “ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- “ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

USE OF DEFINED TERMS; CONVENTIONS

Except where the context otherwise requires and for the purposes of this report only:

- "we," "us," "our company," "our" "Company" and "Dongxing International" refer to the combined business of Dongxing International Inc., its consolidated subsidiaries and its consolidated affiliate, as the case may be;
- "Central Dynamic" refers to Central Dynamic Holdings Limited, our direct, wholly-owned subsidiary, a BVI corporation;
- "Dongxing Hong Kong" refers to Dongxing Holdings Limited, our indirect, wholly-owned subsidiary, a Hong Kong corporation;
- "Harbin Donghui" refers to Harbin Donghui Technology Co., Ltd., our indirect, wholly-owned subsidiary, a Chinese corporation;
- "Harbin Dongxing" refers to Harbin Dongxing Energy Saving Technical Service Co., Ltd., our indirect, consolidated affiliate, a Chinese corporation;
- "SEC" refers to the United States Securities and Exchange Commission;
- "China," "Chinese" and "PRC," refer to the People's Republic of China;
- "Renminbi" and "RMB" refer to the legal currency of China;
- "U.S. dollars," "dollars" and "\$" refer to the legal currency of the United States;
- "Securities Act" refers to the United States Securities Act of 1933, as amended; and
- "Exchange Act" refers to the United States Securities Exchange Act of 1934, as amended.

Solely for the convenience of the reader, this report contains conversions of certain Renminbi amounts into U.S. dollars at specified rates. Except as otherwise indicated, all conversions from Renminbi to U.S. dollars were made based on the Exchange Rate on June 30, 2016, which was RMB 6.6312 to \$1.00. No representation is made that the Renminbi or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. See "Risk Factors—Risks Related to Our Business—Fluctuations in exchange rates could adversely affect our business and the value of our securities" for a discussion of the effects on the Company of fluctuating exchange rates.

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On September 30, 2016, we entered into and closed an exchange agreement with Central Dynamic and all of the shareholders of Central Dynamic (the "**Exchange Agreement**"), pursuant to which all of the shareholders of Central Dynamic transferred all of the issued and outstanding stock of Central Dynamic to us, and we issued to the shareholders of Central Dynamic 25,000,000 shares of our common stock (the "**Share Exchange**"). We currently have 30,000,000 shares of common stock issued and outstanding.

Cheng Zhao is a director and was a 24% shareholder in Central Dynamic. Mr. Cheng served as our sole director until the completion of the Share Exchange.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On September 30, 2016 (the "**Closing Date**"), we completed an acquisition of Central Dynamic pursuant to the Exchange Agreement. The acquisition was accounted for as a "reverse acquisition" effected as a recapitalization effected by a share exchange, wherein Central Dynamic is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

As a result of the acquisition, our consolidated subsidiaries now include:

- Central Dynamic, our wholly-owned subsidiary which is incorporated under the laws of the British Virgin Islands,
- Dongxing Hong Kong, a wholly-owned subsidiary of Central Dynamic which is incorporated under the laws of Hong Kong,
- Harbin Donghui, a wholly-owned subsidiary of Dongxing Hong Kong which is incorporated under the laws of the PRC, and
- Harbin Dongxing, a limited liability company incorporated under the laws of the PRC which is effectively and substantially controlled by Harbin Donghui through a series of agreements.

We have included in Item 5.06 below the information that would be required if the registrant were filing a general form for registration of securities on Form 10, including a complete description of the business and operations of Central Dynamic and its operating subsidiaries.

ITEM 5.01 CHANGES IN CONTROL OF REGISTRANT

On September 30, 2016, Cheng Zhao owned 10,000,000 shares of our common stock, representing 100% of the outstanding common stock. On that date, Cheng Zhao surrendered to the Company 5,000,000 of those shares, leaving him the owner of 5,000,000 shares, which still represented all of the outstanding common stock.

As a result of the subsequent closing of the Exchange Agreement, Cheng Zhao, who prior to the Share Exchange owned 100% of our outstanding common stock, now owns 36.7% of our outstanding common stock. The remaining 63.3% of our outstanding stock is owned by the nineteen other individuals who, together with Cheng Zhao, owned Central Dynamic prior to the Share Exchange.

ITEM 5.06 CHANGE IN SHELL COMPANY STATUS

On September 30, 2016, the Company acquired Central Dynamic in a reverse acquisition transaction. Prior to the Share Exchange, the Company was a shell company as defined in Rule 12b-2 under the Exchange Act. As a result of the transactions under the Exchange Agreement, the Company is no longer a shell company. Accordingly, we are including in this Report the following information, which is the information that would be included in a Form 10 if we were to file a Form 10 with the SEC.

DESCRIPTION OF BUSINESS

We conduct our operations through Harbin Dongxing, our consolidated affiliate. Harbin Dongxing, founded in 2011, is a company engaged in marketing lighting products and services. Harbin Dongxing conducts a portion of its business through two wholly-owned subsidiaries: Harbin Dongrong Lighting Engineering Co., Ltd. and Harbin Dongxing Online Technology Co., Ltd. The offices of Harbin Dongxing and its subsidiaries are located in Harbin City, People's Republic of China.

The Parent Company

Dongxing International was incorporated in June 2010 in accordance with the laws of the State of Delaware under the name Apex 1, Inc. On November 19, 2015 the Company's corporate name was changed to "Dongxing International Inc." Dongxing International has been a "shell company", as defined in Rule 12b-2 under the Securities Exchange Act of 1934, since it was organized.

Organization of Central Dynamic and Acquisition by Dongxing International

The corporate structure of Dongxing International and its subsidiaries and affiliates was developed through the following steps:

On November 17, 2011 two individuals (Cheng Zhao and Su Dianli) organized Harbin Dongxing as a limited liability company in the PRC. The registered equity was allocated among the founders thus: Cheng Zhao - 97.5%, Su Dianli - 2.5%. Since the time of its organization, Harbin Dongxing has been engaged in the marketing of lighting products and related services.

On November 10, 2010 Central Dynamic was organized under the BVI Business Companies Act, 2004 in the British Virgin Islands. Cheng Zhao has served as its director since May 8, 2012. Cheng Zhao purchased 4,250,000 ordinary shares (of the 25,000,000 ordinary shares outstanding) from Central Dynamic for a commitment to pay \$42,500, and has purchased an additional 1,750,000 shares from other shareholders for an aggregate price of \$12,501. The other 19 shareholders of Central Dynamic acquired their 19,000,000 ordinary shares by committing to pay a total of \$179,500 to Central Dynamic. Central Dynamic has not engaged in any business since its formation.

On January 12, 2011 Dongxing Hong Kong was organized in Hong Kong under the name "Dongke Holdings Limited. Central Dynamic has been the sole equity-owner of Dongxing Hong Kong since its formation. The corporate name was changed to Dongxing Holdings Limited on November 12, 2014.

On January 13, 2016 Harbin Donghui was organized in the PRC as a Wholly Foreign-Owned Enterprise. Dongxing Hong Kong has been the sole equity owner of Harbin Donghui since its formation. Harbin Donghui has conducted no business since its formation other than pursuant to the VIE Agreements discussed below.

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On March 30, 2016 Harbin Donghui, Harbin Dongxing and the equity owners in Harbin Dongxing entered into the VIE Agreements discussed below, as a result of which Harbin Dongxing became a controlled affiliate of Harbin Donghui.

On September 30, 2016 Dongxing International acquired all of the capital stock of Central Dynamic through the Share Exchange with the shareholders of Central Dynamic. This reverse acquisition transaction vested in Dongxing International ownership of the chain of subsidiaries described above.

Contractual Arrangements with our Controlled Consolidated Affiliate and its Shareholders

On March 30, 2016, prior to the reverse acquisition transaction, Harbin Donghui and Harbin Dongxing and its shareholders, Cheng Zhao and Su Dianli, entered into a series of agreements known as variable interest agreements (the “VIE Agreements”) pursuant to which Harbin Dongxing became Harbin Donghui’s contractually controlled affiliate. The use of VIE agreements is a common structure used to acquire PRC corporations, particularly in certain industries in which foreign investment is restricted or forbidden by the PRC government. Although Harbin Dongxing participates in an industry that is not a restricted or forbidden to foreign investment, PRC regulations make only certain methods of foreign ownership permissible. Stock exchanges are not a permissible method of gaining foreign ownership of a PRC operating company under current PRC regulations. In order for Harbin Donghui to acquire ownership of Harbin Dongxing, Harbin Donghui would have to purchase Harbin Dongxing for cash, and the purchase price would be subject to the approval of the Ministry of Commerce, which would only approve the purchase price after a lengthy review to determine that the purchase price was commercially fair.

Due to the obstacles to actual acquisition of Harbin Dongxing, the Company utilized the VIE Agreements in order to properly gain control and the economic benefits of Harbin Dongxing. The VIE Agreements included:

an Exclusive Business Cooperation Agreement between Harbin Donghui and Harbin Dongxing pursuant to which Harbin Donghui has the exclusive right and obligation to provide technical support and management and marketing (1) services to Harbin Dongxing in exchange for (i) 95% the total annual net profit of Harbin Dongxing and (ii) RMB 10,000 per month (\$1,508). The term of the agreement is indefinite, and Harbin Dongxing is specifically barred from terminating the agreement.

an Exclusive Purchase Right Agreement among Cheng Zhao, Su Dianli, Harbin Dongxing and Harbin Donghui under which the shareholders of Harbin Dongxing have granted to Harbin Donghui the irrevocable right and option to acquire all of the equity interests in Harbin Dongxing to the extent permitted by PRC law. If PRC law limits the percentage of Harbin Dongxing that Harbin Donghui may purchase at any time, then Harbin Donghui may repeatedly exercise its option in such increments as may be allowed by PRC law. The exercise price of the option (2) is RMB10 (\$1.51) or any other price permitted by PRC law. This option could be exercised if, in the future, the PRC liberalizes the regulations governing acquisition of PRC entities, or if Dongxing International transferred to Harbin Donghui sufficient capital to satisfy the requirements of the Ministry of Commerce as to an adequate purchase price. In the meantime, the Exclusive Purchase Right Agreement serves to protect the Company's interest in Harbin Dongxing, as Harbin Dongxing shareholders agree to refrain from taking certain actions which might harm the value of Harbin Dongxing or Harbin Donghui's option;

(3) A Pledge of Shares Agreement among Cheng Zhao, Su Dianli, Harbin Dongxing and Harbin Donghui under which the shareholders of Harbin Dongxing have pledged all of their equity in Harbin Dongxing to Harbin Donghui to guarantee Harbin Dongxing's and Harbin Dongxing's shareholders' performance of their obligations under the Exclusive Business Cooperation Agreement and the Exclusive Purchase Right Agreement.

As discussed above, share exchanges are not permitted methods to transfer ownership of PRC operating companies to foreign investors. As a result, the VIE agreements are an attempt to give Harbin Donghui the option to gain actual ownership of the shares of Harbin Dongxing in the event it is can be achieved in accordance with PRC laws. The transfer of ownership interests in Harbin Dongxing to Harbin Donghui would be beneficial to U.S. investors because having ownership control, in contrast to contractual rights over Harbin Dongxing, strengthens the control the US parent company has over the operating company, Harbin Dongxing.

The VIE Agreements with our Chinese affiliate and its shareholders, which relate to critical aspects of our operations, may not be as effective in providing operational control as direct ownership. In addition, these arrangements may be difficult and costly to enforce under PRC law. To date, Harbin Dongxing has not made any payment to Harbin Donghui, but all amounts due under the Exclusive Business Cooperation Agreement have been accrued. Our plan for the foreseeable future is that Harbin Dongxing will make payments to Harbin Donghui to the extent necessary for that entity, Dongxing Hong Kong and Central Dynamic to pay their expenses. Harbin Dongxing may also make payments to Harbin Donghui for the purpose of funding the expenses of our U.S. parent company, although in the near term we expect to fund those expenses by borrowing U.S. Dollars from related parties. The remainder of the obligations of Harbin Dongxing to Harbin Donghui will be accrued without interest, penalties or other compensation for the delay in payment. See "Risk Factors - Risks Relating to the VIE Agreements."

Under the terms of the VIE Agreements, Harbin Dongxing and its shareholders are contractually required to operate Harbin Dongxing prudently and effectively in a manner intended to maximize profits. Without the consent of Harbin Donghui, Harbin Dongxing's shareholders may not allow it to: dispose of or mortgage its assets or income (except in the ordinary course of business); increase or decrease its registered capital (including issuing any equity securities); enter into any material agreements with its shareholders outside of the ordinary course of business; appoint or remove any of Harbin Dongxing's directors or management; make any distribution of profits or dividends; or be terminated,

liquidated or dissolved.

However, Harbin Dongxing is not specifically prohibited from acting in certain ways which could reduce its value to the Company. For example, Harbin Dongxing can pay its officers and directors compensation without Harbin Donghui's consent, and such compensation could reduce the net profits payable by Harbin Dongxing to Harbin Donghui under the terms of the Exclusive Business Cooperation Agreement.

Our Business

Lighting Contracting

Harbin Dongxing was organized in 2011 to engage in the distribution, installation and service of lighting systems, primarily for commercial enterprises. The overall goal of our business is to provide customers with programs for achieving cost-savings by reconstruction of a facility's lighting or cost-efficient programs for lighting new facilities. Among the services that our employees provide to customers are energy diagnosis, project design, equipment procurement, lighting engineering, technology consulting and personnel training. The customers for our services include both commercial enterprises, such as factories and office buildings, and government agencies, including hospitals, schools and roadways.

In 2016 Harbin Dongxing obtained ISO9001 certification. We also obtained China Compulsory Certification for marketing of LED products. These two certifications will allow us to market to government-related industries, such as participants in the electric grid or participants in the communications grid, as well as to bid on government procurements.

In September 2015 Cheng Zhao, the Chairman of Harbin Dongxing, contributed to Harbin Dongxing ownership of Harbin Dongrong Lighting Engineering Co., Ltd. ("Harbin Dongrong"). Harbin Dongrong carries on essentially the same type of business operations as Harbin Dongxing, except that Harbin Dongrong holds certain licenses from the Chinese government that enable it to bid on government contracts and other projects that require a licensed contractor, such as urban road lighting and lighting design and construction on public lands. The website for Harbin Dongrong is www.drzm.com.cn.

LED Lighting

The key to our ability to offer customers cost-savings lighting alternatives is the rapid advances achieved during the past decade in the technology of LED lighting. "LED" is the acronym for light emitting diode, the element of LED lighting that transforms electric current into light. Engineers create diodes by pairing a negatively charged semiconductor. When electric power is connected to the diode, the semiconductors are forced into imbalance and release light as electrons jump to a different energy level.

Over the past decade, as the technology has improved, the popularity of LED lighting has soared. Between 2006 and 2012, sales of LED products in China increased by 539%. The advantages of LED lamps over traditional incandescent and fluorescent lighting include:

Longer Life Span. Electrodes in incandescent and conventional fluorescent lamps decay, producing less light over time, and are generally the limiting factor in the lives of the light. The average life span of a traditional lamp is no more than one year. By avoiding the use of electrodes, LED lamps can have life spans of up to 60,000 hours. The extended life reduces the frequency and cost of replacement. It also makes LED lamps particularly suitable for locations or structures where servicing and light replacement are difficult.

High Luminous Efficiency. Electrodes in incandescent or conventional fluorescent lighting give rise to power loss and place limits on the gas pressure and its composition. These restrictions do not apply to LED lights, as they have no electrodes. As a result, the power rating and light output of the lamps can be significantly increased.

Quick Start. LED lights can be started or restarted without pre-heating. Only a low current is necessary to initiate operation. This enables the size of the distribution box to be reduced, lowering the installation cost. Their quick start-up makes the technology particularly well suited for emergency lighting.

Automatic Brightness Adjustment. Many of our products incorporate programmable smart cards, which can adjust the level of brightness based on such factors as the time of day or the level of natural light. The lamps can function at any point down to 30% of their capacity, providing significant flexibility.

Energy Efficiency. LED technology can save as much as 75% of the energy that would be used in conventional fluorescent lamps.

High Lighting Quality. LEDs also emit steady light, producing a very limited amount of flickering under steady current.

Marketing

Our marketing is done by a direct sales force. Most of our marketing effort focuses on explaining the savings that our customers will achieve by replacing traditional incandescent and fluorescent lights with new LED lights. When a customer expresses interest, our sales personnel visit the customer's facility and develop a lighting design, drawing from products offered by dozens of manufacturers. We provide the customer a budget as well as an estimate of electric cost savings to be gained by implementing our proposal. If the customer contracts with us, we take a down payment, purchase and install the lights, then monitor the new lighting. All of our installations have either a one-year or a three-year performance guarantee, and we monitor all sales to assure the guarantee is fulfilled. For customers with whom we enter energy management contracts, as described below, we provide five years of after-sales service.

We expect that many of the sales by Harbin Dongxing will take the form of energy management contracts ("EMC"). In this business model, energy efficient equipment is sold to an end user on a payment plan designed to net no cost to the customer: payments by the customer are scheduled to conform to the savings realized from use of the energy efficient equipment. Typically, a customer's payment obligation to us represents 90% of the cost-savings realized in the first year after installation, 80% of the savings in year two; 70% in year three; 60% in year four and 50% in year five. At the end of the fifth year, title to the lighting systems is passed to the customer. Harbin Dongxing and Harbin Dongrong offer this option to customers directly as well as to contractors as part of a broader EMC program. Although an EMC sale results in significantly longer payment terms than a conventional net-90 days sale, profit margins on EMC sales are far higher than on conventional sales, as customers are much less price-resistant in the EMC model. Currently, we have EMC contracts with two customers. Our revenue from these EMC sales has been approximately double our costs for the installation, albeit spread over five years.

Lighting contracts entered by Harbin Dongrong, because they often involve government customers or government-related construction projects, are generally not EMC contracts. In our standard Harbin Dongrong contract, the customer pays us 30% of the contract price when the contract is signed, 30% when the products are delivered; 30% upon installation, and the final 10% after the one year quality guarantee is fulfilled.

Our customers often opt to upgrade their lighting over an extended period, in order to absorb the cost gradually. For example, we currently have a contract with the Harbin Water Supply Group that will result in revenue of \$300,000. The contract calls for installation over a three year period, however. The first installations will occur in October of this year, but for only \$60,000. The remainder will occur in 2017 and 2018.

Most of our sales to date have occurred in Heilongjiang Province. We expect that when our online platform (discussed below) goes live and becomes well-known, the association of Harbin Dongxing with that website will increase recognition of our brand and increase demand for our services beyond Heilongjiang Province.

Mengqiao Eurasian Trade E-commerce Platform

Harbin Dongxing is located in the Heilongjiang Province of China, which has a border with Russia extending over 3,000 kilometers. Heilongjiang Province's 25 ports (15 shipping ports, 4 aviation ports, 2 railway and 4 road ports) are exceeded in number only by Guangzhou Province. For these reasons, Heilongjiang Province is the natural location for trade with eastern Russia, a notion repeatedly emphasized in the proclamations of both China's State Council and the Provincial government. In October 2013 the national government designated Harbin, the capital of Heilongjiang Province, as a pilot city entitled to implement cross border ecommerce.

In 2013 the price of LED lighting products in China was approximately 40% lower than the price of comparable products in Russia. For that reason, in July 2013 we organized Harbin Dongxing Online Business Trading Co., Ltd. ("Dongxing Online") as a subsidiary of Harbin Dongxing for the purpose of effecting online distribution of Chinese lighting products into Russia. Dongxing Online was established in China with registered capital of 1 million RMB. Since its organization, Dongxing Online has been engaged in developing the Mengqiao Eurasian Trade E-commerce Platform, a B2B website designed to distribute lighting products from China to commercial customers in Russia, with plans to later expand offerings to Eastern Europe. The website (URL: union-bridge.com) now includes over 5,000 products from almost 100 manufacturers. Among the attractive features of the union-bridge.com website are:

- product listings, transactions and customer service offered in three languages: Chinese, Russian and English;
 - real-time currency conversion of posted prices;
 - supply and demand information is available to registered users, both suppliers and customers.
- a variety of payment methods, including Paypal, Alipay and telegraphic transfer, permitting online payment in RMB,U.S. Dollars and Russian Roubles;
- customer choice of international delivery methods;
 - supplier guarantees of delivery within three days.

Each supplier enters into a Distribution Agreement with Dongxing Online. The agreement provides the supplier will ship products as directed by Dongxing Online, with title and risk of loss retained by the supplier until delivery is complete. Dongxing Online is required to pay for the products upon delivery. The supplier warrants the quality of the products and takes responsibility for the after-sale service that is mandated by Chinese law. The supplier also covenants that the price posted on the website for the advertised goods is the best price offered anywhere.

The website was developed for Dongxing Online under contract by a web development company. The contract provided for the transfer of ownership of the website and its intellectual property to Dongxing Online. The web development company maintains the site on an ongoing basis, for which Dongxing Online pays a fee.

Our goal in developing the Mengqiao Eurasian Trade E-commerce Platform was to surmount some of the difficulties that have limited the growth of Chinese manufacturing exports to Russia. In particular, we have developed extensive avenues on the website for product and market information to be exchanged between manufacturers and customers, aimed at increasing mutual understanding of the market with a view towards optimizing the benefits of trade for both purchasers and sellers. The Platform offers registered users:

- an information portal, offering supply and demand statistics, information on industry trends, and reports of prior sales and customer feedback, among other items;

- a transaction portal enabling contracting, documentation, and transaction tracking; and

- a customer service portal, facilitated by detailed information regarding customer purchases and feedback.

The Mengqiao Eurasian Trade E-commerce Platform will provide Chinese LED manufacturers an orderly medium through which to access the Russian market for lighting products, with significantly lower marketing cost than individualized approaches. To date, we have focused on developing the website and organizing the special relationships that will enable us to access the Russian market when we commence commercialization of the website. Our plan for commercial introduction is a multi-pronged approach to the market, involving:

- Search engine promotion through the principal search engines, such as Baidu, Yandex and Google;

- Participation in Russian trade shows sponsored by the LED industry;

- Promotion in periodicals distributed to the Russian construction industry; and

- establishment of associations with Russian enterprises involved in marketing to the construction industry.

Our budget for initiating commercialization of the website is \$2 million, to pay for the aforesaid advertising and promotion activities as well as to build our after-sales service centers. Revenue from the Mengqiao Eurasian Trade E-commerce Platform will primarily come from fees paid by participants on the Platform and advertising fees for more advantageous positioning on the website. Dongxing Online will also have the benefit of holding the purchase price for products sold on the website between the date when the end user orders the product and the date on which payment is due.

Intellectual Property

We have registered the copyright for Dongxing Online's trading platform with the National Copyright Administration of the People's Republic of China: the copyright registration number 2015SR078522.

We have also registered our trademark with the national government: trademark registration number TMZC16118206ZCSL01.

Recently Harbin Dongxing was awarded a patent in China for its invention of an LED external control nixie tube. The patent number is ZL201220204547.X.

Employees

The Company has 11 employees: five are employed by Harbin Dongxing and six are employed by Dongxing Online. We believe that our relationship with our employees is good.

Harbin Dongxing carries the following insurance policies for the benefit of its employees:

	<u>Annual</u>	
	<u>Premium</u>	
	<u>RMB</u>	<u>US\$</u>
Endowment	14,400	2,172
Unemployment	1,320	199
Medical	15,600	2,353
Work-related Injury	360	54
Maternity	360	54

Property

Harbin Dongxing leases a facility of 480 m² at 26 Hengshan Road in Harbin, although the first floor (approximately 120 m²) is subleased to a store. The lease terminates on April 17, 2018. The annual rental is 300,000 RMB (\$45,241). The sublease provides for annual rental of approximately \$19,500, and is co-terminous with the master lease.

RISK FACTORS

Investing in our common stock will involve risk. You should carefully consider the risks described below together with all of the other information contained in this Report, including the financial statements and the related notes, before deciding whether to purchase any shares of our common stock. If any of the following risks is realized, our business, financial condition or operating results could materially suffer. In that event, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related To Our Business

We have a limited operating history and limited historical financial information upon which you may evaluate our performance.

We have only recently initiated operations, and to date we have realized very limited revenues. You should consider, among other factors, our prospects for success in light of the risks and uncertainties encountered by companies that, like us, are in their early stages of development. We may not successfully address these risks and uncertainties or successfully implement our existing and new products and services. If we fail to do so, it could materially harm our business and impair the value of our common stock. Even if we accomplish these objectives, we may not generate the positive cash flows or profits we anticipate in the future. Our current business plan involves initiating online marketing of lighting products, which we expect to be the engine for the growth of our company. However, no

member of our management has experience with online product distribution, and our website remains in the development stage. Therefore, our ability to carry out our business plan successfully is completely untested. Unanticipated problems, expenses and delays are frequently encountered in establishing a new business and developing new products and services. These include, but are not limited to, inadequate funding, lack of consumer acceptance, competition, product development, and inadequate sales and marketing. Our failure to meet any of these conditions would have a materially adverse effect upon us and may force us to reduce or curtail operations. No assurance can be given that we can or will ever operate profitably.

Our auditor has indicated that there is a substantial doubt as to whether we will be able to continue as a going concern.

In its report on the financial statements of Harbin Dongxing for the years ended December 31, 2015 and 2014, our independent registered public accounting firm has stated that the fact that the Company has generated limited revenues and does not have positive cash flow from operations raises substantial doubt as to our ability to continue as a going concern. A “going concern” opinion is an indication that the auditor’s review of the company’s resources and business activities raised doubt as to whether the company will be able to realize its assets and discharge its liabilities in the ordinary course of business. The risk of investing in a company whose financial statements carry a going concern opinion is that you are likely to lose all of your investment if the company fails to continue as a going concern. In the case of Dongxing International, the fact that we have minimal assets and a limited source of revenue means that we will continue as a going concern only if we are able to obtain the funds necessary to implement our business plan and are successful in that implementation. If we are not able to convert our business into a going concern, investors in the Company will lose their investment.

Obstacles to trade between Russia and China may interfere with the development of our online business.

Our business plan contemplates that the initiation of distribution operations through our website will yield substantial growth and, in particular, a marked improvement in our cash flow. Our website has been designed to primarily attract Russian customers for lighting products, as our business plan is to take advantage of the proximity of our headquarters in Heilongjiang Province to the border of eastern Russia. However, trade between China and Russia is still hindered by significant difficulties, some the result of historical animosity between Russia and China and some the result of bureaucratic and political impediments to trade. Both governments, for example, impose duties and taxes on cross-border trade that significantly increase the cost of imported products and so reduce demand for those products. In addition, the time required to pass through customs at the border can be substantial, thus adding to the incentive for residents of Russia to purchase products manufactured within Russia. Moreover, the recent declines in the market prices of oil and natural gas has severely damaged the Russian economy, reducing overall demand for products in Russia. These factors may contribute to the difficulty in developing active users in Russia for our online distribution services, which could make our online venture unprofitable.

Our expansion into the international market will require capital investment, which may result in dilution of the equity of our present shareholders or significantly increased borrowing costs.

Our business plan contemplates that we will expand our sales both domestically and internationally. To achieve that aim, we will need capital. So our business plan contemplates that we will raise \$2 million in capital during the next year in order to complete development of our product distribution website and initiate marketing. We intend to raise all or a large portion of the necessary funds by selling equity in our company. At present we have no commitment from any source for those funds. We cannot determine, therefore, the terms on which we will be able to raise the necessary amounts. It is possible that we will be required to dilute the value of our current shareholders' equity in order to obtain the funds. On the other hand, if we are forced to borrow these amounts, our cost of capital will significantly increase. But if we are unable to raise the necessary funds, our growth will be limited, as will our ability to compete effectively.

The nature of our receivables and the unavailability of receivables financing in China will restrict our cash flows, and may interfere with our ability to fund growth.

Our standard arrangement with customers requires payment for sales 90 days after delivery. In many situations, however, we afford customers much longer to pay. For example, when we provide lighting products to contractors working on government construction projects, we respect the government practice of paying only after the entire project is inspected by requiring payment 90 days after actual installation of the lamps. In addition, a growing portion of our business involves entering into energy management contracts with customers or participating in energy management contracts written by contractors, under which the customer is not required to pay until cost savings from the energy efficient lamps are realized. In these and similar circumstances, our collection of receivables will take place over an extended period of time. In the meantime, however, the current efforts of China's government to restrict bank lending and control monetary expansion will prevent us from financing our receivables. As a result, in many cases our cash resources must be used to pay ongoing expenses before the cash revenue arising from those expenses is collected. This situation will limit our cash resources and may, in turn, limit our growth and prevent us from taking advantage of opportunities for expansion and market penetration that present themselves.

We May Not Be Able To Market Our Website Successfully.

The core of our business plan is the launch of our website for distribution of lighting products. Once we have completed development of the website, we plan to launch a marketing campaign to fully promote and advertise our website. The e-commerce industry is extremely competitive. Though we are not aware of any website offering Chinese lighting products to the residents of Russia, there are currently many general online shopping websites both in China and Russia that sell lighting products. An effective marketing plan will need to be executed in order to establish a loyal client base, and to get our website known in the marketplace. If we fail to develop such an effective marketing plan, and if we are unable to market our website successfully to consumers, we may not be able to sustain online business operations.

We May Not Be Able to Find Suitable Software Developers at an Acceptable Cost.

We have contracted with a software developer to further develop and upgrade our website and associated backend interface. We will continue to require such expertise in the future, in order to meet the demands of developing online technology. Due to the current demand for skilled software developers, we run the risk of not being able to find or retain suitable personnel at an acceptable price. We would also need to ensure that the candidates are adequately qualified to develop a website that is user friendly, free of errors and seamless in design. Without these developers, we may not be able to further develop and upgrade the software, which is the most important aspect of our business development.

Our management has limited experience in managing and operating a public company. Any failure to comply with federal securities laws, rules or regulations could subject us to fines or regulatory actions, which may materially adversely affect our business, results of operations and financial condition.

Our management personnel have no prior experience managing and operating a public company. They will rely in many instances on the professional experience and advice of third parties, including our attorneys and accountants. None of the members of our management staff were educated and trained in U.S. business systems, and we may have difficulty hiring new employees in the PRC with such training. As a result, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002, as amended. This may result in significant deficiencies or material weaknesses in our internal controls, which could impact the reliability of our financial statements and prevent us from complying with the SEC rules and regulations. Failure to comply with any laws, rules, or regulations applicable to our business may result in fines or regulatory actions, which may materially adversely affect our business, results of operation, or financial condition and could result in delays in development of an active and liquid trading market for

our common stock. To the extent that the market place perceives that we do not have a strong financial staff and financial controls, the market for, and price of, our stock may be impaired.

The lack of expertise in U.S. GAAP among the staff of our finance department could result in errors in our filings.

The books and records of Harbin Dongxing, our operating entity, are maintained in accordance with bookkeeping practices that are customary in China. The financial statements of Harbin Dongxing and Harbin Donghui are prepared in accordance with accounting principles generally accepted in China. The staff of our finance department, which prepares those financial statements, has experience with Chinese GAAP, but very limited experience with U.S. GAAP. Therefore, in order to file with the SEC consolidated financial statements prepared in accordance with U.S. GAAP, we have engaged an independent consultant who makes the adjustments to the financial statements of Harbin Dongxing and Harbin Donghui necessary to achieve compliance with U.S. GAAP, then will perform the consolidation required to produce the consolidated financial statements of Dongxing International. Because that consultant, who is not present in our executive offices, is the only participant in the preparation of our financial statements possessing a familiarity with U.S. GAAP, there is a risk that the persons responsible for the initial classifications of the elements of our financial results will err in making those classifications, which will cause our reported financial statements to be erroneous. Any such errors, besides being misleading to investors, could result in subsequent restatements, which could have an adverse effect on the perception of the Company among investors.

We may not be able to meet the internal control reporting requirements imposed by the SEC resulting in a possible decline in the price of our common stock and our inability to obtain future financing.

As directed by Section 404 of the Sarbanes-Oxley Act, the SEC adopted rules requiring each public company to include a report of management on the company's internal controls over financial reporting in its annual reports. Although the Dodd-Frank Wall Street Reform and Consumer Protection Act exempts companies with a public float of less than \$75 million from the requirement that our independent registered public accounting firm attest to our financial controls, this exemption does not affect the requirement that we include a report of management on our internal control over financial reporting and does not affect the requirement to include the independent registered public accounting firm's attestation if our public float exceeds \$75 million.

While we expect to expend significant resources in developing the necessary documentation and testing procedures required by Section 404 of the Sarbanes-Oxley Act, there is a risk that we may not be able to comply timely with all of the requirements imposed by this rule. Regardless of whether we are required to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls, if we are unable to do so, investors and others may lose confidence in the reliability of our financial statements and our stock price and ability to obtain equity or debt financing as needed could suffer.

In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls in connection with its audit of our financial statements, and in the further event that it is unable to devise alternative procedures in order to satisfy itself as to the material accuracy of our financial statements and related disclosures, it is possible that we would be unable to file our Annual Report on Form 10-K with the SEC, which could also adversely affect the market for and the market price of our common stock and our ability to secure additional

financing as needed.

We require highly qualified personnel and, if we are unable to hire or retain qualified personnel, we may not be able to grow effectively.

Our future success also depends upon our ability to attract and retain highly qualified personnel. Expansion of our business and the proposed growth of our business will require additional managers and employees with industry experience, and our success will be highly dependent on our ability to attract and retain skilled management personnel and other employees. We may not be able to attract or retain highly qualified personnel. Competition for skilled marketing and administrative personnel in China is significant. This competition may make it more difficult and expensive to attract, hire and retain qualified managers and employees.

The loss of the services of our key employees, particularly the services rendered by Cheng Zhao, our our chief executive officer, could harm our business.

Our success depends to a significant degree on the services rendered to us by our key employees. If we fail to attract, train and retain sufficient numbers of these qualified people, our prospects, business, financial condition and results of operations will be materially and adversely affected. In particular, we are heavily dependent on the continued services of Cheng Zhao, who founded our business and now serves as our chief executive officer. We currently do not have key employee insurance for our officers and directors. The loss of any of these key employees, including members of our senior management team, could harm our business.

We Do Not Anticipate Paying Dividends in the Foreseeable Future.

We have never declared or paid any cash dividends or distributions on our capital stock. We currently intend to retain our future earnings, if any, to support operations and to finance expansion and therefore we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Investors requiring current or near-term income from their investment should not invest in our Company.

Risks Relating to the VIE Agreements

The PRC government may determine that the VIE Agreements are not in compliance with applicable PRC laws, rules and regulations.

Harbin Donghui provides support and consulting service to Harbin Dongxing pursuant to the VIE Agreements. Almost all economic benefits and risks arising from Harbin Dongxing's operations are transferred to Harbin Donghui under these agreements. There are risks involved with the operation of our business in reliance on the VIE Agreements, including the risk that the VIE Agreements may be determined by PRC regulators or courts to be unenforceable. Our PRC counsel has advised that if the VIE Agreements were for any reason determined to be in breach of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such breach, including:

- imposing economic penalties;
- discontinuing or restricting the operations of Harbin Donghui or Harbin Dongxing;
- imposing conditions or requirements in respect of the VIE Agreements with which Harbin Donghui or Harbin Dongxing may not be able to comply;
- requiring our company to restructure the relevant ownership structure or operations;

· taking other regulatory or enforcement actions that could adversely affect our company's business; and
· revoking the business licenses and/or the licenses or certificates of Harbin Dongxing, and/or voiding the VIE Agreements.

Any of these actions could adversely affect our ability to manage, operate and gain the financial benefits of Harbin Dongxing, which would have a material adverse impact on our business, financial condition and results of operations.

Our ability to control Harbin Dongxing under the VIE Agreements may not be as effective as direct ownership.

We conduct our business in the PRC and generate all of our revenues through the VIE Agreements. Our plans for future growth are based substantially on expanding the operations of Harbin Dongxing and its subsidiaries. However, the VIE Agreements may not be as effective in providing us with control over Harbin Dongxing as direct ownership. Under the current VIE arrangements, as a legal matter, if Harbin Dongxing fails to perform its obligations under these contractual arrangements, we may have to (i) incur substantial costs and resources to enforce such arrangements, and (ii) rely on legal remedies under PRC law, which we cannot be sure would be effective. Therefore, if we are unable to effectively control Harbin Dongxing, it may have an adverse effect on our ability to achieve our business objectives and grow our revenues.

The VIE Agreements are governed by PRC law and provide for the resolution of disputes through the jurisdiction of courts in the PRC. If Harbin Dongxing or its shareholders fail to perform the obligations under the VIE Agreements, we would be required to resort to legal remedies available under PRC law, including seeking specific performance or injunctive relief, or claiming damages. We cannot be sure that such remedies would provide us with effective means of causing Harbin Dongxing or its shareholder to meet their obligations, or recovering any losses or damages as a result of non-performance. Further, the legal environment in China is not as developed as in other jurisdictions. Uncertainties in the application of various laws, rules, regulations or policies in PRC legal system could limit our liability to enforce the VIE Agreements and protect our interests.

The payment arrangement under the VIE Agreements may be challenged by the PRC tax authorities.

We generate our revenues through the payments we receive pursuant to the VIE Agreements. We could face adverse tax consequences if the PRC tax authorities determine that the VIE Agreements were not entered into based on arm's length negotiations. For example, PRC tax authorities may adjust our income and expenses for PRC tax purposes which could result in our being subject to higher tax liability, or cause other adverse financial consequences.

Risks Related To Doing Business In China

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary and affiliate in the PRC. Our operating subsidiary and affiliate are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We are a Delaware holding company and most of our assets are located outside of the United States. All of our current business operations are conducted in the PRC through our VIE entity, Harbin Dongxing. In addition, all of our directors and officers are nationals and residents of the PRC, and the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments on the civil liability provisions of the U.S.

federal securities laws against us and our officers and directors, none of whom are residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.

All our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the “current account,” which includes dividends and trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans. Currently, our PRC operating subsidiary and affiliate may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future.

Foreign exchange transactions by our PRC operating subsidiary under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiary borrows foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiary by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce, or MOFCOM, or their respective local counterparts. These limitations could affect their ability to obtain foreign exchange through debt or equity financing.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without there being any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. In August 2015, the PRC government devaluated the RMB by approximately 3.5%, and by an additional 0.5% in January 2016. Additional devaluation could occur in the future and affect our results. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Restrictions under PRC law on our PRC subsidiary's ability to make dividend and other distributions could materially and adversely affect our ability to grow, make investments or complete acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.

Substantially all of our revenues are earned by our PRC subsidiary. However, PRC regulations restrict the ability of our PRC subsidiary to make dividend and other payments to its offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiary only out of its accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of our annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of the subsidiary's registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Under the EIT Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.

Under the New Income Tax Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and their global income will generally be subject to the uniform 25% enterprise income tax rate. On December 6, 2007, the PRC State Council promulgated the Implementation Regulations on the New Income Tax Law, which define “de facto management bodies” as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In addition, a circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within the PRC if the following requirements are satisfied:

- the senior management and core management departments
- (i) in charge of its daily operations function mainly in the PRC;

 - (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC;

 - (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and

 - (iv) more than half of the enterprise's directors or senior management with voting rights reside

in the PRC.

If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the EIT Law and its implementing rules dividends paid to us from our PRC subsidiary would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares.

If we were treated as a “resident enterprise” by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be creditable against our U.S. tax.

If the China Securities Regulatory Commission (“CSRC”) or another PRC regulatory agency determines that CSRC approval was required in connection with the reverse acquisition of Central Dynamic, the reverse acquisition may be unwound, or we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rule”). The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that have acquired a PRC domestic company for the purpose of listing the PRC domestic company's equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company's securities on an overseas stock exchange. In addition, when an offshore company acquires a PRC domestic company, the offshore company is generally required to pay the acquisition consideration within three months after the issuance of the foreign-invested company license unless certain ratification from the relevant PRC regulatory agency is obtained. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official web site procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

We believe the M&A Rule mandating CSRC approval for acquisition of a PRC domestic company by an offshore company controlled by PRC companies or individuals should not apply to our reverse acquisition of Central Dynamic because none of Central Dynamic, Dongxing Hong Kong or Harbin Donghui was a “Special Purpose Vehicle” or an “offshore company controlled by PRC companies or individuals” at the moment of acquisition. However, we cannot assure you that we would be able to obtain the approval required from MOFCOM. If the PRC regulatory authorities take the view that the reverse acquisition of Central Dynamic constituted a round-trip investment without MOFCOM approval, they could invalidate our acquisition and ownership of Central Dynamic.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary or affiliate, limit our PRC subsidiary's and affiliate's ability to distribute profits to us or otherwise materially adversely affect us.

In October 2005, SAFE issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire “control” over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements relating to the source of the PRC resident’s funds used to establish or acquire the offshore entity; covering the use of existing offshore entities for offshore financings; (3) purporting to cover situations in which an offshore SPV establishes a new subsidiary in China or acquires an unrelated company or unrelated assets in China; and (4) making the domestic affiliate of the SPV responsible for the accuracy of certain documents which must be filed in connection with any such registration, notably, the business plan which describes the overseas financing and the use of proceeds. Amendments to registrations made under Circular 75 are required in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations, and Notice 106 makes the offshore SPV jointly responsible for these filings. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV’s affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

We have advised our shareholders who are PRC residents, as defined in Circular 75, to register with the relevant branch of SAFE, as currently required, in connection with their equity interests in us and our acquisitions of equity interests in our PRC subsidiary and affiliate. However, we cannot provide any assurances that their existing registrations have fully complied with, and they have made all necessary amendments to their registration to fully comply with, all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiary’s and affiliate’s ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 by our PRC resident beneficial holders. In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 75. We also have little control over either our present or prospective direct or indirect shareholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident shareholders to comply with Circular 75, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiary’s and affiliate’s ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption law, and any determination that we violated these laws could have a material adverse effect on our business.

We are subject to the U.S. Foreign Corrupt Practices Act, (“FCPA”) and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers for the purpose of obtaining or retaining business. We are also subject to Chinese anti-corruption law, which strictly prohibits the payment of bribes to government officials.

We principally have operations, agreements with third parties and make sales in China, which may experience corruption. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants or distributors of our company, because these parties are not always subject to our control. We believe that to date we have complied in all material respects with the provisions of the FCPA and Chinese anti-corruption law. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption law may result in severe criminal or civil sanctions, an