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**Web Proof Information Pack of**



**World Wide Touch Technology (Holdings) Limited**

**世達科技(控股)有限公司**

*(incorporated in the Cayman Islands with limited liability)*

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## **SUMMARY**

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### **OVERVIEW**

We are a leading provider of capacitive touch pads by volume for use in notebook computers. Touch pad was our core product and revenue driver during the Track Record Period. We also produced touch screens and multi-media buttons, which may be used in multi-media smart phones, portable media players, handheld messaging and personal digital assistant devices and peripheral computer equipment.

During the Track Record Period, we have focused on touch pad manufacturing mainly as a manufacturing services provider, with value-adding know-how mainly in respect of engineering design and assembly. Our major customer of capacitive touch products, Synaptics, is a supplier to ODMs/OEMs of notebook computers and consumer electronics.

In addition to the manufacturing of touch products, we have, as a natural expansion of our SMT/COB production capability into markets which we believe to possess significant growth potentials, diversified into the development of non-touch products, beginning with the commercialisation of fingerprint biometric devices in July 2008. We are also a manufacturing services provider in this product segment by sourcing fingerprint sensors externally and manufacturing fingerprint biometric devices for use in notebook computers. We provide engineering design support in the course of production to our customers.

With the support of our R&D team and our customers, we have further diversified into the production of wireless charging devices and plasma lighting products. We are committed to distinguishing ourselves from a traditional manufacturing services provider and we have invested resources into research and development for these new products. For wireless charging devices, we co-developed wireless charging devices with our customer by providing battery design and engineering support. For plasma lighting products, we provided manufacturing services to our customer for plasma light projectors and also developed and introduced plasma street lamps to another customer during the Track Record Period.

Although our business relationship with non-touch product customers is relatively short, being less than one year on average, we aim to continue our ongoing business relationship with them in the future.

#### ***Leading provider of capacitive touch pads***

We have engaged in the touch pad business for over 10 years, during which we provided capacitive touch pads to Synaptics, a global leader in capacitive touch pads, such that we have become one of the world’s leading capacitive touch pad suppliers for notebook computers by volume. The sales of touch pads and other products to Synaptics accounted for approximately

## **SUMMARY**

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93.4%, 98.9% and 79.4% of our total revenue for each of the three years ended 31 December 2009, respectively. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. The decrease in proportion of sales to Synaptics was mainly attributable to our Group’s active efforts in diversification of product portfolio during the Track Record Period and in particular, the mass production of wireless charging devices in the second half of the year ended 31 December 2009.

In line with usual industry practice for manufacturing services providers to share and utilise intellectual property rights of their customers in providing manufacturing services, we have a non-exclusive, non-transferable and royalty-free licence agreement with Synaptics, which authorises us to utilise Synaptics’ proprietary ICs, designs, drawings, specifications and software solely for the production of its touch products. Like other manufacturing services providers, we are not aware of the details, technicalities and specifications of our customer’s intellectual properties. As our production process mainly involves the assembly of the ICs and other components onto the PCBs through SMT and COB processes, circuit testing for connectivity and application testing for functionality, our Directors believe that our main strength as a manufacturing services provider lies with our scalable SMT/COB manufacturing capabilities, which enable us to offer high quality products at competitive pricing.

As Synaptics is our largest customer and it has accounted for a significant portion of our revenue during the Track Record Period, we have set out details of our relationship with this customer in the section headed “Relationship with Synaptics” in this document, which include:

- Background of Synaptics
- Risks faced by Synaptics
- Relationship with Synaptics
- Reliance on Synaptics – A Decreasing Trend
- Our Alternative Business Model/Diversification and Contingency Plan

We have established a long-term business relationship of more than 10 years with Synaptics, with whom we have not entered into any formal long-term supply agreement. Our practice of not having any formal long-term supply agreement with Synaptics is adopted based on the following considerations:

- (a) it is our practice to conduct sales with Synaptics based on purchase orders and rolling forecasts, which are non-binding in nature. Our Directors believe that such practice is in line with business practices of other manufacturing services providers in the electronics industry;
- (b) our business partnership with Synaptics without a long-term binding agreement offers us with the flexibility required in our operations to cater for dynamic changes in the electronics industry such as changes in customer demand and technologies; and
- (c) most of our production facilities, namely, the SMT and COB/COF lines, are standard manufacturing equipment in the electronics industry and only minor adjustments, which could be completed in a reasonably short period of time with nominal costs, would be

## **SUMMARY**

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required to accommodate other specific requirements from other customers. In addition, our production staff will only have to attend brief training sessions and can be trained up within a reasonably short period of time at nominal costs.

As disclosed in the Synaptics Annual Report, Synaptics utilises contract manufacturers for all of its production requirements and it does not have long-term agreements with any of its contract manufacturers that guarantee production capacity, prices, lead times or delivery schedules. Our Directors believe that it is in both of our Group’s and Synaptics’ interests not to enter into any formal long-term supply agreement for purpose of maintaining flexibility and in particular, Synaptics may, with this flexibility, reduce its dependence on any one source of supply.

We believe our Group and Synaptics have, during the long-term course of dealings, developed mutual reliance in terms of sales and cost effectiveness. On the one hand, our Group has attained a mass volume of production, enabling us to become a leading provider of capacitive touch pads by volume for use in notebook computers. On the other hand, our Group has remained as a key contract manufacturing services provider of Synaptics for over 10 years, the main reasons for which are, as we believe, our Group’s cost effectiveness and quality products offered to Synaptics. As the market leading vendor of touch pads, Synaptics has chosen our Group as its valued business partner for more than 10 years, which shows our Group’s importance to Synaptics and Synaptics’ reliance on our Group.

Although ODMs/OEMs of notebook computers and consumer electronics and end-users in the touch product supply chain (i.e. consumer electronics brands) are not our direct customers contractually for touch pads, in order to ensure that their specifications and expectations are met, we work closely with them and have obtained qualification certification from a range of ODMs/OEMs and consumer electronics brands. Through such processes and audits, we have been able to establish a direct relationship with them and provide touch products which satisfy their specific requirements. We believe that Synaptics may not terminate its engagement of our Group’s contract manufacturing services without first consulting its customers. Given our over 10 years’ of industry experience and our Group’s production process and quality products having satisfied design specifications and other production requirements of Synaptics’ customers, our Directors believe that it is unlikely that Synaptics’ customers would require Synaptics to cease its engagement of our Group.

### ***Fingerprint biometric devices***

We believe that there is an increasing awareness in data security protection generally as a result of which interest in biometric products and authentication devices is increasing. Accordingly, we commenced the manufacturing of fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we sold a portion of our fingerprint biometric devices. In addition, we have designed and developed a series of fingerprint biometric products, which have yet to be commercialised, under our own “C-touch” brand, using fingerprint sensors sourced externally from the same customer, with the aim to provide customers with devices to protect personal data against possible loss or leakage while using consumer electronics.

We commenced commercialisation of our fingerprint biometric devices in July 2008 and it constituted approximately 4.8% of our Group’s revenue in the year ended 31 December 2009. We believe the growing consumer interest and potential for profit growth justify our continued effort in this product segment.

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### ***Wireless charging devices***

We produced wireless charging devices (including power transmitters and power receivers) involving the use of components supplied by our customer during the Track Record Period. We co-developed this wireless charging devices with our customer by providing battery design and engineering support.

In August 2009, we made our first shipment of wireless charging devices and for the year ended 31 December 2009, wireless charging devices accounted for approximately 11.5% of our Group's revenue. Our sales of wireless charging devices to our customer, HoMedics Group, is recurring in nature. Although we currently only have one customer for our wireless charging business, we expect the wireless charging segment to become increasingly significant to our business going forward in terms of, inter alia, revenue contribution.

### ***Plasma lighting products (projectors and street lamps)***

During the Track Record Period, we provided contract manufacturing services in the assembly of plasma light projectors. We also developed and manufactured plasma street lamps.

We manufacture plasma light projectors for Luxim with the support of a non-exclusive and royalty free license. The licensed technology is designed to allow to produce a high intensity light with higher efficiency and longer life than traditional lighting.

In 2009, our major product in this business segment became plasma street lamps. We made our first shipment of plasma street lamps in November 2009 and it accounted for approximately 4.8% of our total revenue in the fourth quarter of 2009 and approximately 1.8% of our total revenue for the year ended 31 December 2009.

Although our Company has only sold plasma street lamps to one customer during the Track Record Period, our sales to such customer is expected to be recurring in nature. In addition, we have received other orders placed by another customer and have also entered into non-binding letters of intent for the sale and purchase of plasma street lamps with various potential customers since our first shipment in November 2009. We anticipate this segment of the business to enjoy a meaningful growth in the near future.

### ***Other products***

We have also offered contract manufacturing services for a range of other products, including electrical components for drilling equipment, automotive devices and medical equipment to our customers during the Track Record Period. These products were not a main source of our revenue during the Track Record Period but they offered valuable opportunities for us to diversify our customer base and to form technology partnerships with our customers.

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## SUMMARY

The following table sets forth the breakdown of our revenue by product segment during the Track Record Period:

	Year ended 31 December					
	2007		2008		2009	
<i>Revenue from</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Capacitive touch products	614,727	91.2%	722,158	96.3%	689,364	77.6%
Fingerprint biometric devices	–	0.0%	69	0.0%	42,281	4.8%
Lighting source <sup>Note 1</sup>	40,962	6.1%	4,849	0.6%	17,775	2.0%
Wireless charging devices	–	0.0%	–	0.0%	102,431	11.5%
Others <sup>Note 2</sup>	<u>18,604</u>	<u>2.7%</u>	<u>22,712</u>	<u>3.1 %</u>	<u>36,497</u>	<u>4.1%</u>
<b>Total</b>	<b><u>674,293</u></b>	<b><u>100%</u></b>	<b><u>749,788</u></b>	<b><u>100%</u></b>	<b><u>888,348</u></b>	<b><u>100%</u></b>

*Notes:*

1. Lighting source consists of plasma light projectors and plasma street lamps.
2. Other products include automotive devices, plastic components, medical products and mining and drilling machine system products.

### ***Our production facilities and quality commitment***

Our production base is in Heshan city, Jiangmen, Guangdong province in southern China, where our main production and R&D facilities are located. We had 32 high speed SMT lines and 70 wire bonding machines for COB/COF assembly as at the Latest Practicable Date. We own our main production plant in Heshan city which has a site area of approximately 125,000 sq.m. We also lease another production site nearby of a total area of approximately 7,800 sq.m. from an Independent Third Party.

We believe that our production facilities are technically capable of manufacturing a range of consumer electronic products, for details of our production facilities and our capabilities, please refer to the section headed “Business – Production – Production facilities”. Please also refer to the section headed “Business – Information Technology” in this document for details of our information technology systems and our i-Manufacturing system.

Our Group has obtained qualification certifications and passed regular audits for products we produced. The qualification process is costly and time-consuming which we believe, presents a market entry barrier for potential competing touch product manufacturers and impediment for our customers to turn to alternative manufacturing services providers. Details of which please refer to the section headed “Business – Production – Production facilities”.

We have obtained accreditations including ISO9001:2008 in respect of our quality management systems and ISO14001:2004 in respect of our environmental management systems. We have also obtained CE and FCC certifications and ISO accreditations for our various products.

Please refer to the sections headed “Business – Awards and Accreditations” and “Business – Quality Control” in this document for further details.

### ***Our R&D capabilities and accreditations***

We started our business as a manufacturing services provider of primarily touch pads utilising intellectual property, underlying patents and technologies licensed from our customer. In recent years, we have progressed further into developing our own R&D capabilities and devoting additional

## **SUMMARY**

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resources in technological advancement. Please refer to the section headed “Business Overview – Overview – R&D capabilities and accreditations” in this document for details of our R&D breakthroughs.

Between October 2008 and April 2010, we were granted 16 patents and designs and further applied for 46 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States. We received the Innovative Enterprise Award from the Hong Kong Productivity Council in December 2009 as recognition of our successful implementation of intellectual property management. In August 2009, we have also been awarded the International Forum Design Award for our G3 fingerprint sensor mouse.

During the Track Record Period, our R&D expenses and capitalised development costs, trademarks and patent fees amounted to approximately HK\$9.7 million, HK\$12.2 million and HK\$22.3 million. For details of our R&D capabilities and achievements, please refer to the section headed “Business Overview – Competitive Strengths – Technology leadership” in this document.

### ***Going forward***

Envisaging continuing growth of the capacitive touch interface market and long term customer relationships, we aim to maintain our focus on capacitive touch products as our main and stable source of revenue and within the touch product segment, we plan to focus more on touch screens. We plan to enhance and upgrade our production and testing equipment for touch screen related products for customers including Synaptics. In parallel, we will strive to reduce our dependence on one particular product segment by the manufacturing of fingerprint biometric devices, wireless charging devices and plasma lighting products which we believe to have potentials for growth.

Over the years, we have emerged as a provider of “life-technology” by supplying products and technologies which are used to facilitate everyday life, be it from computer interfaces to automobile navigation or data security authentication to lighting applications. Going forward, we wish to continue this vision of being a provider of “life-technology” to consumers and at the same time, introduce further cutting-edge technologies for wider applications in daily life.

## **COMPETITIVE STRENGTHS**

We consider the following to be our principal competitive strengths:

- Leading position in manufacturing of capacitive touch pads
- Technology leadership
- R&D capabilities and brand development
- High product quality and competitive cost structure
- Long-term relationships with major customer and supply chain end-users
- Close partnerships with industry leaders
- Experienced management team with proven track record and industry expertise

## **STRATEGIES AND FUTURE PLANS**

Our core strategies and future plans are set out below:

- Continue our focus on the touch product market with an increasing emphasis on touch screen production



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## SUMMARY

- Capitalise on growth opportunities in fingerprint biometrics technology
- Combine touch and fingerprint technologies to create new applications
- Diversify in life-technologies through R&D capabilities and technology partnerships
- Enhance our position in wireless charging market
- Expand the sales of plasma street lamps
- Pursue potential acquisition opportunities

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth our summary consolidated financial information for the three years ended 31 December 2009, as derived from the Accountant’s Report set forth in Appendix I in this document.

#### Consolidated Income Statements

	<b>Year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	674,293	749,788	888,348
Cost of sales	<u>(521,845)</u>	<u>(585,701)</u>	<u>(629,802)</u>
Gross profit	152,448	164,087	258,546
Other income/(losses) – net	19,045	(443)	1,198
Distribution costs	(6,262)	(4,242)	(6,135)
Administrative expenses	<u>(57,116)</u>	<u>(57,926)</u>	<u>(81,727)</u>
Operating profit	108,115	101,476	171,882
Finance income	539	227	265
Finance costs	<u>(11,253)</u>	<u>(4,780)</u>	<u>(8,454)</u>
Finance costs – net	<u>(10,714)</u>	<u>(4,553)</u>	<u>(8,189)</u>
Profit before income tax	97,401	96,923	163,693
Income tax expense	<u>(17,775)</u>	<u>(10,878)</u>	<u>(10,563)</u>
Profit for the year	<u>79,626</u>	<u>86,045</u>	<u>153,130</u>
Attributable to:			
Equity holders of our Company	79,626	86,045	151,655
Minority interests	<u>–</u>	<u>–</u>	<u>1,475</u>
	<u>79,626</u>	<u>86,045</u>	<u>153,130</u>
Dividends	<u>51,000</u>	<u>–</u>	<u>51,000</u>

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### Consolidated Balance Sheets

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	165,563	240,186	340,526
Land use right	5,467	5,385	5,270
Intangible assets	–	–	11,383
Deferred income tax assets	–	709	278
Prepayments	1,887	1,725	3,299
	<u>172,917</u>	<u>248,005</u>	<u>360,756</u>
<b>Current assets</b>			
Inventories	44,420	32,928	105,691
Trade receivables	63,862	46,549	227,932
Prepayments, deposits and other receivables	4,482	6,229	32,801
Financial assets at fair value through profit or loss	1,947	1,056	1,403
Amounts due from related companies	7	20	–
Amounts due from directors	10,482	56,844	–
Pledged bank deposits	19,088	56,423	83,431
Cash and cash equivalents	1,000	12,630	36,057
	<u>145,288</u>	<u>212,679</u>	<u>487,315</u>
<b>Total assets</b>	<u><u>318,205</u></u>	<u><u>460,684</u></u>	<u><u>848,071</u></u>
<b>EQUITY</b>			
<b>Owner's equity attributable to our Company's equity holders</b>			
Share Capital	215,250	215,250	215,250
Reserves	(151,230)	(63,048)	26,857
	<u>64,020</u>	<u>152,202</u>	<u>242,107</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings	18,860	–	89,003
Finance lease obligations	24,573	14,580	31,471
Deferred tax liabilities	–	2,590	–
	<u>43,433</u>	<u>17,170</u>	<u>120,474</u>
<b>Current liabilities</b>			
Trade and bills payables	122,158	124,726	248,425
Accruals and other payables	28,616	38,139	52,211
Bank borrowings	3,151	79,245	146,574
Finance lease obligations	29,851	23,144	23,505
Current income tax liabilities	16,542	15,637	14,161
Amount due to a related company	10,434	10,421	–
Amounts due to directors	–	–	614
	<u>210,752</u>	<u>291,312</u>	<u>485,490</u>
<b>Total liabilities</b>	<u><u>254,185</u></u>	<u><u>308,482</u></u>	<u><u>605,964</u></u>
<b>Total equity and liabilities</b>	<u><u>318,205</u></u>	<u><u>460,684</u></u>	<u><u>848,071</u></u>
<b>Net current (liabilities)/assets</b>	<u><u>(65,464)</u></u>	<u><u>(78,633)</u></u>	<u><u>1,825</u></u>
<b>Total assets less current liabilities</b>	<u><u>107,453</u></u>	<u><u>169,372</u></u>	<u><u>362,581</u></u>

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## SUMMARY

Our Group recorded gains on disposal of financial assets of HK\$25.1 million for the year ended 31 December 2007. Such gains were mainly derived from the gain on investment in listed securities during such period and, since then, our Group has not had other investment of a similar nature.

With respect to our Group’s future investment and treasury policies, our Directors will take a conservative approach in relation to investments and will focus on our core business development.

### Consolidated Cash Flow Statement

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Net cash generated from operating activities	80,373	148,450	26,668
Net cash generated from/(used in) investing activities	31,501	(160,783)	(82,256)
Net cash (used in)/generated from financing activities	(102,250)	24,141	72,578
Net increase in cash and cash equivalents	9,624	11,808	16,990
Cash and cash equivalents at beginning of the year	(8,802)	822	12,630
Cash and cash equivalents at end of the year	822	12,630	29,620

### PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010<sup>(1) & (2)</sup> Not less than HK\$103.3 million

Unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 Not less than HK\$[●]

#### Notes:

- (1) The bases and assumptions on which the above consolidated profit forecast for the six months ending 30 June 2010 has been prepared are summarised in Appendix III in this document.
- (2) Our forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 is extracted from the section headed “Financial Information – Profit Forecast for the six months ending 30 June 2010” in this document. The bases and assumptions on which the above profit forecast has been prepared are set out in the section headed “Profit Forecast” in Appendix III in this document. Our Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on the unaudited consolidated results of our Group, the management accounts of the four months ended 30 April 2010 and a forecast of the consolidated results of our Group for the remaining two months ending 30 June 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 4 of Section I of the Accountant’s Report, the text of which is set out in Appendix I in this document.

## **SUMMARY**

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### **DIVIDENDS**

Our Company may distribute dividends by way of cash or by other means that we consider appropriate. A decision to distribute any dividends would require the approval of our Board and will be at its discretion. In addition, any distribution of final dividend for a financial year will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time taking into account the following factors in determining whether dividends are to be declared and paid:

- financial results of our Company;
- shareholders' interests;
- general business conditions and strategies;
- our Company's capital requirements;
- the payment by our subsidiaries of cash dividends to our Company;
- possible effects on our liquidity and financial position of our Company; and
- other factors our Board may deem relevant.

During the Track Record Period, subsidiaries of our Company had declared dividends to their then equity holders of HK\$51.0 million, nil and HK\$51.0 million, respectively. In March 2010, we declared an interim dividend in respect of the year ended 31 December 2009 of approximately HK\$15.4 million.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and factors described above, we currently expect to distribute as dividends no more than 30% of our net profit after tax for [●].

### **RISK FACTORS**

#### **Risks Relating to our Group**

- We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three

## SUMMARY

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years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results

- We have relied on one customer for our revenue from the sales of wireless charging devices which accounted for approximately 11.5% of our total revenue for the year ended 31 December 2009
- Our products contain components or otherwise involve registered patents not owned by us
- Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights
- Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable
- Our touch product business may entail significant competition
- We are pursuing multiple new product lines, which will require us to learn new production techniques and product markets. Our entry into new product lines also exposes us to the risk of under-investment in our capacitive touch pad operations. We do not have a full track record for the production of our various new products
- We derive a substantial portion of our revenue from capacitive touch products, which are principally used in consumer electronics
- We may not be able to enhance our existing products or production process to match the rapid pace of technological development
- The promotion of our own “C-touch” brand may not succeed
- We may not be able to adapt to our customers’ varying requirements. Failure or limitations of our operation system or resources could affect our customer relationships
- Our investment in the development of new technologies may not equate to commercial success
- Our business operations depend on the recruitment and retention of key personnel as well as R&D projects with external institutions
- Protection of our intellectual property know-how and proprietary rights may be limited, and the potential costs to defend and enforce such rights may be high
- If we are unable to pass on to our customers any future increases in the price of raw materials, our profitability and profit margins may be affected
- We rely on our major suppliers
- We may be affected by labour disruptions and rising labour costs

## **SUMMARY**

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- Any successful product liability claims made against us may have adverse effects on our reputation and financial position
- We may not be able to manage our expansion effectively
- Our business operation results may experience significant fluctuations
- We require substantial amounts of capital for our business operations and future growth
- Our insurance coverage may not be sufficient to cover the risks related to our operations and losses
- We had net current liabilities as at 31 December 2007, 31 December 2008 and 30 April 2010
- Our historical financial information may not represent future performance, which may affect our future dividend policy
- Our machinery is subject to breakdown and depreciation and we may not be able to find replacements
- Our operations are concentrated in our main production base in Jiangmen, China
- Some of our products may cause harmful or undesirable side effects on human health
- Certain of our owned and leased properties may be subject to title encumbrances
- We have not obtained the necessary licences, permits and approvals for our properties under construction
- We have not made mandatory contributions to medical insurance funds and housing provident funds prior to September 2009
- Our Hong Kong subsidiary may be subject to additional tax liabilities

### **Risks Relating to the capacitive touch product, fingerprint biometrics, wireless charging and consumer electronics industries**

- The computers, consumer electronics and communications industries are cyclical and may result in fluctuations in the results of our operations
- Our business is seasonal
- Our business and operations may be adversely affected by the current global economic crisis
- We rely on the market demand for our customers’ products, which is in turn dependent on global economic conditions

## **SUMMARY**

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- There is uncertainty over laws, rules, regulations and governmental policies relating to personal privacy or the collection of personal data
- The growth of fingerprint biometric market may be restricted

### **Risks Relating to conducting business in the PRC**

- Our operations are subject to inherent uncertainties of the PRC’s economic, political and social conditions
- Our operations are subject to inherent uncertainties of PRC’s legal system
- PRC’s governmental control of currency conversion may adversely affect our financial performance
- Foreign exchange and conversion risks may lead to fluctuation in value of RMB, which could adversely affect our operation costs
- We may not continue to enjoy tax concessions in the PRC
- The PRC Employment Contract Law may adversely affect our business operations or financial position
- Inflation in the PRC may affect our production costs, which may have a negative impact on our financial results
- Our operations could be materially and adversely affected by health epidemics or other outbreaks which are beyond our control
- Our business may be materially and adversely affected by the relationships between the PRC and the U.S.

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## DEFINITIONS

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**In this document, unless the context otherwise requires, the following terms and expressions have the meanings set below. Certain other terms are explained in the section headed “Glossary” in this document.**

“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 31 May 2010 by our Shareholders and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Awarded Employees”	the employees to whom World Fair Tech transferred, in aggregate, 2,830 shares in World Fair Hong Kong (representing 2.83% of the issued share capital therein as at 30 September 2008) pursuant to the Share Incentive Scheme
“Board” or “our Board”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday and public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Cayman Islands Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands



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## DEFINITIONS

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“Charming Lion”	Charming Lion Limited (俊獅有限公司), a company incorporated in the BVI on 6 May 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“Cherry Light”	Cherry Light Limited (櫻輝有限公司), a company incorporated in the BVI on 11 May 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	World Wide Touch Technology (Holdings) Limited (世達科技(控股)有限公司), an exempted company incorporated in the Cayman Islands on 17 July 2009
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules, and in the context of this document means the controlling shareholders of our Company, namely Soar Plan, Mr. Wong and Ms. Ching. Details of their shareholdings in our Company are set forth in the section headed “Substantial Shareholders” in this document
“Cyber Energy”	Cyber Energy Limited (數碼能源科技有限公司), a company incorporated in Hong Kong on 18 December 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“Cybertouch”	Cybertouch-Tech Company Limited (薩特龍科技有限公司), a company incorporated in Hong Kong on 13 October 2000 with limited liability, an indirect wholly-owned subsidiary of our Company
“Director(s)”	the director(s) of our Company
“Display Search”	Display Search LLC is a provider of information, consulting and conferences on the display supply chain and display-related industries
“document”	this document being issued in connection with [●]
“Ever Firm”	Ever Firm Limited (堅永有限公司), a company incorporated in the BVI on 6 May 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“Greater China”	PRC, Hong Kong and Macau
“Group”, “our Group”, “we”, “our” and “us”	our Company and its subsidiaries or where the context so requires, in respect of the period before our Company became the holding

## **DEFINITIONS**

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	company of its present subsidiaries, the present subsidiaries and their respective predecessors, or the businesses operated by such subsidiaries or their predecessors, as the case may be
“HoMedics Group”	a group of companies including HoMedics Inc., HoMedics USA Inc. and HoMedics Hong Kong Ltd, our customer for wireless charging devices
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Hong Kong Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time

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## **DEFINITIONS**

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“IBG”	International Biometric Group, LLC is a research, consulting and systems integration firm addressing the identity management and security needs of government and commercial clients
“IMS Research”	Intex Management Services Ltd. is a supplier of market research to the global electronics industry
“Independent Third Party(ies)”	[●]
“iSuppli Corporation”	iSuppli Corporation, a company founded in 1999 and based in El Segundo, California, operates as a market intelligence company which offers electronics and technology research and advisory services, as well as produces analysis reports and databases

## **DEFINITIONS**

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“iSuppli Touch Report”	the market research report by iSuppli Corporation commissioned by our Company, which analyses the worldwide touch pad market
“iSuppli WC Report”	the market search report by iSuppli Corporation commissioned by our Company, which analyses the worldwide wireless charging market
“IT Growth”	IT Growth Holdings Limited, a company incorporated in the BVI on 19 April 2001 with limited liability in which Mr. Wong and Ms. Ching hold 60% and 40% shareholdings respectively, being a connected person to our Company
“Kick Start”	Kick-Start Technology Limited, a company incorporated in the BVI on 30 August 2000 with limited liability in which Mr. Wong and Ms. Ching hold 60% and 40% shareholdings respectively, being a connected person to our Company
“Latest Practicable Date”	1 June 2010, being the latest practicable date for ascertaining certain information in this document before its publication
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Luxim”	Luxim Corporation, our customer for plasma light projectors
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market and the options market
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted upon the incorporation of our Company and as amended from time to time
“Mr. Wong”	Wong Kwok Fong, one of our founders, our chairman, Chief Executive Officer, executive Director and our Controlling Shareholder, the spouse of Ms. Ching

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## **DEFINITIONS**

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“Ms. Ching”	Ching Pui Yi, one of our founders, our Chief Operating Officer, executive Director and our Controlling Shareholder, the spouse of Mr. Wong
“NASDAQ”	National Association of Securities Dealers Automated Quotations, a stock exchange in the United States
“PRC” or “China”	the People’s Republic of China, but for the purposes of this document only (unless otherwise indicated), excluding Hong Kong, Macau and Taiwan
“PRC government”	the central government of the PRC, including all governmental subdivisions (such as provincial, municipal and other regional or local government entities)

## **DEFINITIONS**

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“Reorganisation”	the corporate reorganisation of the group of companies now comprising our Group as described in the section headed “Statutory and General Information – The Reorganisation” in Appendix VI in this document
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAT”	the PRC State Administration of Taxation
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Incentive Scheme”	the share incentive scheme adopted by World Fair Tech on 30 September 2008, the principal terms of which are set forth under the section headed “Statutory and General Information – Share Schemes” of Appendix VI in this document
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 31 May 2010, the principal terms of which are set forth under the section headed “Statutory and General Information – Other information – Share Schemes – Share Option Scheme” in Appendix VI in this document
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	the ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.10 each
“Shining Union”	Shining Union Limited (耀光聯有限公司), a company incorporated in Hong Kong on 9 July 2009 with limited liability, an indirect wholly-owned subsidiary of our Company

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## **DEFINITIONS**

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“Silkray”	Silkray Limited (兆榮有限公司), a company incorporated in the BVI on 11 May 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“Soar Plan”	Soar Plan Holdings Limited (翔策控股有限公司), a company incorporated in the BVI on 6 November 2009 with limited liability, a Controlling Shareholder of our Company, the entire issued share capital of which is owned by Swan Hills
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Success Charm”	Success Charm Holdings Limited (祥成控股有限公司), a company incorporated in the BVI on 11 May 2009 with limited liability, a wholly-owned subsidiary of our Company
“Swan Hills”	Swan Hills Holdings Limited, a company incorporated in the Commonwealth of The Bahamas on 6 May 2009, the entire issued share capital of which is ultimately owned by the Trustee as trustee of The KW Trust
“Synaptics”	Synaptics Incorporated, a company listed on the NASDAQ and a global leader in capacitive touch pads, our major customer and an Independent Third Party
“Synaptics Annual Report”	Synaptics’ annual report for the year ended 30 June 2009
“The KW Trust”	a discretionary trust established by Mr. Wong on 1 December 2009, the beneficiaries of which include family members of Mr. Wong and Ms. Ching
“Track Record Period”	three years ended 31 December 2009
“Trustee”	Credit Suisse Trust Limited, the trustee of The KW Trust

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## DEFINITIONS

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“United States” or “U.S.”	The United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Up Castle”	Up Castle Limited (上堡有限公司), a company incorporated in Hong Kong on 9 July 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“World Design”	World Design Technology Limited, a company incorporated in the BVI on 4 November 2009 with limited liability, an indirect wholly-owned subsidiary of our Company
“World Fair Heshan”	鶴山市世逸電子科技有限公司 (Heshan World Fair Electronics Technology Ltd.), a wholly foreign-owned enterprise established on 18 November 2004 in Jiangmen, the PRC, an indirect wholly-owned subsidiary of our Company
“World Fair Hong Kong”	World Fair International Limited (世逸國際有限公司), a company incorporated in Hong Kong on 27 December 1996 with limited liability, an indirect wholly-owned subsidiary of our Company
“World Fair Taiwan”	香港商世逸國際有限公司台灣分公司 (World Fair International Limited Taiwan Branch), a branch office of World Fair Hong Kong established on 19 March 2009 in Taiwan
“World Fair Tech”	World Fair Technology Holdings Limited (世逸科技集團有限公司), a company incorporated in Hong Kong on 3 March 2000 with limited liability, the issued share capital of which is held as to 74.9%, 25.0%, 0.05% and 0.05% by Mr. Wong, Ms. Ching, IT Growth and Kick Start respectively, a connected person of our Company
“m <sup>2</sup> ” or “sq.m”	square metres
“%”	per cent

*Unless otherwise specified, translations of HK\$ into US\$, RMB into HK\$ and HK\$ into RMB in this document are based on the rates set out below (for the purpose of illustration only):*

*RMB1.00 : HK\$[●]*

*HK\$1.00 : RMB[●]*

*US\$1.00 : HK\$[●]*



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## **DEFINITIONS**

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*No representation is made that any amounts in RMB, HK\$ and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*The English names of the PRC established entities mentioned in this document are translations from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.*

*Unless otherwise expressly stated or the context otherwise requires, all data in this document is as at the date of this document.*

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## GLOSSARY

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The glossary contains explanations and definitions of certain terms used in this document which relate to our Company, our business and/or the touch pad, fingerprint biometrics, wireless charging, plasma lighting and consumer electronics industries. They may not correspond to standard industry meanings or usages.

“AOI”	automatic optical inspection
“ASIC”	application specific integrated circuits
“BAAN ERP”	enterprise resource planning software owned by Infor Solutions, which is based in Alpharetta, Georgia, United States
“CAGR”	compound annual growth rate
“CE”	Conformité Européenne
“COB”	chip-on-board
“COF”	chip-on-flex
“DSP”	digital signal processor
“EHS”	environmental, health and safety management system established by our Group in relation to environmental compliance and health and safety issues
“EICC”	Electronic Industry Citizenship Coalition, an industry wide supplier code of conduct adopted by electronics manufacturing services providers to promote responsible business practices such as worker safety and fairness, and social and environmental responsibilities across the global electronics supply chain
“ERP”	enterprise resource planning
“FCC”	The United States Federal Communication Commission
“Fortune 500”	a list compiled and published by Fortune magazine on an annual basis, which ranks the top 500 U.S. closely held and public corporations by gross revenue
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“HKFRS”	Hong Kong Financial Reporting Standards (which also include the Hong Kong Accounting Standards and Interpretations)

## **GLOSSARY**

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“HK GAAP”	HKFRS and other generally accepted accounting principles in Hong Kong
“IC”	integrated circuit, a microelectronic semiconductor device comprising active or passive elements built onto a piece of substrate of conductor material and enclosed in a small package
“IECQ”	International Electrotechnical Commission Quality Assessment System for Electronic Components, a group of companies which provide verification and assessment of standards which covers areas including hazardous substance process management
“ISO”	a series of international standards, including quality management and quality assurance standards published by the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001:2008”	a standard under ISO used for certification or registration and contractual purposes by organisations seeking recognition of their quality management, which specifies the requirement for quality management systems for any organisation that needs to demonstrate its ability to consistently provide products that meet its requisite standards
“ISO14001:2004”	a standard under ISO for environmental management which is primarily concerned with what an organisation does to comply with legal requirements to minimise the harmful effects on the environment caused by its activities and which sets requirements for what an organisation must do to manage processes influencing the impact of its activities on the environment
“LED”	light emitting diode
“lm”	lumen, the unit of luminous flux for measuring the perceived power of light
“MP3”	a digital music format which allows compact disc tracks to be reduced to around one tenth of their normal size without significant decline in quality
“laptop computers”	notebook and netbook computers
“non-touch products”	fingerprint biometric devices, wireless charging devices, plasma light projectors and plasma street lamps produced by our Group
“OBM”	original brand manufacturer

## **GLOSSARY**

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“ODM”	original design manufacturer
“OEM”	original equipment manufacturer, whose products are used as components or branded as products by another company. An OEM generally works closely with its clients and customises its products based on clients’ needs
“PC”	personal computers, which include desktops and portable computers
“PCB”	printed circuit board, a flat plate or base made of insulating materials containing a pattern of conducting materials, which becomes an electrical circuit when components are attached and soldered to it
“PCBA”	printed circuit board assembly, an assembly that uses a PCB for component mounting and interconnecting purposes
“PIN”	personal identification number
“plasma street lamp”	street lamp lighting device using plasma lighting technology
“PMP”	portable media player, a consumer electronics device that is capable of storing and playing digital media
“ppm”	parts per million
“R&D”	research and development
“RFID”	radio frequency identification, a system which allows tracking and identification using radio waves, used in a range of applications from automobiles to security pass cards
“SGS”	Société Générale de Surveillance, a group of companies which provide inspection, verification, testing and certification services
“SMT”	surface-mount technology, a method for constructing electronic circuits in which leadless components are mounted directly onto the surface of a PCB
“touch pad”	a pointing device to translate a user’s finger position and motion to a relative position on screen of personal computers and other electronic products, also called a track pad
“UL”	Underwriters Laboratories Inc.
“USB”	universal serial bus
“VAT”	value added tax
“WTO”	The World Trade Organisation

## **RISK FACTORS**

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### **RISKS RELATING TO OUR GROUP**

**We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results**

During the Track Record Period, we have derived a very significant portion of our revenue from sales of touch pads and other products to our major customer, Synaptics, a global leader in capacitive touch pads for notebook computers. Our sales to Synaptics accounted for approximately 93.4%, 98.9% and 79.4% of our total revenue during the Track Record Period. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. However, we do not currently have any long-term written agreement with this major customer. As a result, our business and financial results rely on, amongst other factors, the continuation of orders, and the quantity levels of such orders, placed by this customer.

We have not been confirmed that we are the largest touch pad supplier to this customer and we cannot assure you that we will continue to receive orders, or receive orders of the same quantity as in the past. We aimed to diversify our product range during the Track Record Period and during the year ended 31 December 2009, our sales to this customer decreased to approximately 79.4% of our total revenue. However, as set out in the risk factor headed “We are pursuing multiple new product lines, which will require us to learn new production techniques and product markets. Our entry into new product lines also exposes us to the risk of under-investment in our capacitive touch pad operations. We do not have a full track record for the production of our various products” below, our plan to reduce our reliance on this customer may not be successful. We anticipate that our dependence on Synaptics for our touch products will continue in the foreseeable future if our diversification in products cannot be achieved as planned. Consequently, our business and profits would be materially and adversely affected should Synaptics reduces its quantity of orders placed with us or cease to purchase from us. We may not be able to secure a comparable level of business from other customers on comparable commercial terms to offset the loss of revenue from this customer.

In addition, our reliance on sales to Synaptics also subject us to the risks faced by this customer, which include the following:

- *Synaptics derives a very substantial portion of its revenue from the sale of touch pads for notebook computers* – the PC market as a whole has experienced a slowdown in growth and the rate of expansion of the notebook portion of the PC market has also declined. Any continued or accelerated decrease in demand for notebook and from the PC market will cause harm to its business and financial conditions.

## **RISK FACTORS**

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- *Market acceptance and commercial success of its customers’ products* – Synaptics does not sell directly to retail consumers, but to international consumer electronics brands and therefore has no control over the manufacturing, distribution, pricing and market acceptance of the end products which incorporate its touch pads. The sales of Synaptics will decrease if its customers in turn do not achieve commercial success in selling such end products to consumers.
- *Synaptics relies on designated IC suppliers* – Synaptics does not manufacture the proprietary ICs which it designs, one of the key components of capacitive touch pads. It relies on the purchase of ICs which it designs from designated IC suppliers. The contract manufacturers of Synaptics are then consigned with the ICs for assembly. Should these designated suppliers cease to supply these requisite ICs to Synaptics and there are no comparable or alternative IC supplies available in the market, the operations of Synaptics may be adversely affected.
- *Synaptics’ market share may be harmed by a technologically new human interface solution or technological obsolescence* – Synaptics derives a very significant portion of its revenue from the sale of touch products and as such, its business could be harmed if its products become less competitive or outdated as result of a technological breakthrough that allows a new interface solution to displace its touch product solutions.

In the event that Synaptics is affected by the above or other risks relating to its business, and unfavourable economic conditions, or if its business or financial condition deteriorates for whatever reasons, resulting in delays in payments or lower demand for our products, there may be a material adverse impact on our profitability, operating conditions and financial results. Further details are set forth in the section headed “Relationship with Synaptics” in this document.

### **We have relied on one customer for our revenue from the sales of wireless charging devices which accounted for approximately 11.5% of our total revenue for the year ended 31 December 2009**

We only started producing wireless charging devices towards the end of our Track Record Period and we derived all of our revenue in our wireless charging business segment from sales to a single customer. Revenue from the sales of wireless charging devices accounted for approximately 11.5% of our total revenue for the year ended 31 December 2009. We do not currently have any formal long-term agreement with this customer. As such, our wireless charging device business and financial results will rely on, amongst other factors, the continuation of orders and the quantity levels of such orders, placed by this single customer. In the event that the business or financial conditions of this customer deteriorate, there may be a material adverse impact on our profitability, operating conditions and financial results.

### **Our products contain components or otherwise involve registered patents not owned by us**

In line with usual industry practice for manufacturing services providers to share and utilise intellectual property rights and trade secrets of their customers in providing manufacturing services, we have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics authorising us to utilise its proprietary ICs, designs, drawings, specifications and software which incorporate its intellectual property rights solely for use in the production of touch products specific to Synaptics. The license may be terminated by Synaptics at its option. Our production process involves the assembly of touch products by utilising ICs (which contain patented technologies not owned by us) consigned by Synaptics (via its designated suppliers) and the drawings, specifications

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## **RISK FACTORS**

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and certain software provided by this customer. These materials consigned or otherwise provided to us may contain or involve relevant patents not owned by us, of which we are not aware of the details and technicalities.

We also manufacture our fingerprint biometric devices and plasma lighting products under licences of software and technologies from our customers and we also produce wireless charging devices by utilising intellectual property rights not owned by us. If our customers terminate our licence to use the requisite intellectual property rights owned by our customers for whatever reason, we may not be able to secure other substitutes from the market and our business and financial conditions may be materially affected.

### **Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights**

We have licensing arrangements with our customers for our manufacturing and assembly of various products. While we are not aware of any infringement claims against us or any of our customers, we cannot assure you that the patents, software and technologies relevant to our products do not infringe the intellectual property rights of any third parties. Our business depends on our ability to use the know-how and the intellectual properties provided by our customers without infringing the intellectual property rights of other third parties. We believe the materials consigned to us and the work instructions we receive from our customers contain the technology and patent owned by our customers. However, the scope and validity of such patents and intellectual property rights may involve complex scientific, legal and factual issues and analysis and may therefore be uncertain. We may be subject to litigation or proceedings of patent infringement or violation of intellectual property rights if our customers who supplied us with materials, specifications, drawings and other work instructions, are involved in intellectual property right claims or proceedings. The defence and prosecution of such proceedings may be time-consuming and costly. It may further divert efforts and resources of our technical and management staff. Should it be determined that any or all of such patents or software and technologies license infringe the intellectual property rights of any third parties, our customers, as well as our Group, may face litigation, in which case we may be ordered to cease production, pay substantial damages and litigation costs. This would lead to business disruptions, loss of revenue and have a material adverse effect on our business operations and financial results. Protracted litigation could also result in our customers or potential customers deferring or limiting their orders until all litigation is resolved.

### **Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable**

Some of the technologies used in our products are subject to registered patents and accordingly, the use of such technologies is restricted to the patent owners, their licensees or other authorised persons. For our touch products, we have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics authorising us to utilise its proprietary ICs, designs, drawings, specifications and software which incorporate its intellectual property rights solely for use in the production of touch products specific to Synaptics which may be terminated by Synaptics at its option. We also manufacture our fingerprint biometric devices utilising fingerprint sensors purchased externally and plasma lighting products under licences of software and technologies from our customers and we also produce wireless charging products by utilising intellectual property rights not owned by us.

We do not know the details and expiry dates of our customers’, in particular, Synaptics’ patents and other intellectual property rights. Should the patent applications filed by our customers not be registered for any reason or certain of their registered patents expire in the short to medium term,

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their relevant know-how and technologies will be available to the relevant industry in general in which case, our customers will face increased competition and challenges to their market leading positions, and our Group’s business and profitability may be significantly and adversely affected accordingly if we fail to receive orders from other players in the industry.

### **Our touch product business may entail significant competition**

The average selling price for our capacitive touch pads decreased during the Track Record Period. We believe the decrease was mainly attributable to factors including general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

Our market position will very much depend on our ability to produce touch pads competitively, as well as our ability to market our touch pad products effectively. Our Group’s competitors include (i) a NASDAQ listed company which provides electronics manufacturing services to original equipment manufacturers, which also provides design resources to end-to-end vertically integrated global supply chain services, including packaging and transportation worldwide; (ii) a Thailand listed company which is a contract manufacturer with its production bases in Thailand and engaged in the provision of various assembly services in the electronics industries which includes PCBA, COB and IC assembly; and (iii) a Thailand company which provides electronics manufacturing services in microelectronics module assembly (including PCBA, testing and box build assembly) and IC packaging and exclusive line assembly.

Our Directors believe that there may be an increasing number of players in the capacitive touch product market. Some of our potential competitors may have longer operating histories than us, stronger relationships with their customers, greater brand recognition, or greater financial, technical, marketing and public relations resources than we have, and, as a result, they may be able to acquire some of our customers. Our market share could be reduced if our competitors develop new technology or new products, or offer products that are comparable or superior to ours at a lower price. Increased competition in the future could result in price reductions, margin contraction, or other strains on our operations. If our competitors offer better quality products, services, or better pricing, our revenue, market share, and results of operations could be materially and adversely affected. We cannot assure you that we will be able to maintain a competitive edge over our future competitors or that we will be able to receive new orders from other players in the industry, particularly if the relevant patents of our customers expire or otherwise become unavailable.

**We are pursuing multiple new product lines, which will require us to learn new production techniques and product markets. Our entry into new product lines also exposes us to the risk of under-investment in our capacitive touch pad operations. We do not have a full track record for the production of our various new products**

Since our inception, we have been principally focused on the production of capacitive touch pads and until recently, we began to commercialise various new product lines, including fingerprint biometric devices, wireless charging devices and plasma lighting products. We have invested significant financial and human resources to date into these new product lines, and we expect to expand significant additional resources to further develop these new product lines in the future.

While we are confident that our past experience will allow us to succeed in these new ventures, there are substantial risks involved in developing new products and entering into new markets. We



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will be taking delivery of new equipment and constructing new production lines, which will involve training for our operators and technical personnel as well as the development of many new processes and procedures. Should our development personnel fail to master the techniques and know-how necessary for producing these new products, we may suffer delays and higher rates of product defect, which could prove costly and harm our reputation. We may also face challenges from more experienced competitors, which may produce superior rival products or undercut us on price, thus forcing us to lower our prices or invest additional time and resources into re-designing our products.

Furthermore, our business relationship with non-touch product customers is relatively short on average as we have only begun commercialisation of some of these non-touch products in the year ended 31 December 2009. Our average length of business relationship with these non-touch product customers is less than a year. In light of the short business relationships, there is no assurance that our customers will continue to place orders with us or that they will not turn to alternative suppliers. Should we fail to conduct business with these customers on the long term, our business operations and financial performance may be adversely affected.

As we pursue these new product lines, there is also the risk that we may lose focus on our core competency and revenue driver, capacitive touch pad production, which could result in our under-investment in necessary additional production capacity and thereby jeopardise our relationship with our primary customer. Should we encounter any of these difficulties in the development and execution of our new product lines or neglect to sufficiently invest adequate resources in our capacitive touch pad operations, our business, results of operations and financial position may be severely affected.

Our business plan is dependent upon certain assumptions on future events and on the assumption that we will possess the adequate skills, knowledge, expertise and resources for production and marketing of such products, machinery for production, access to adequate supplies of necessary components and other raw materials, and good business relationships with customers for distribution. By nature, these assumptions are subject to uncertainty and therefore we cannot assure that we will be able to successfully expand into these new products, or that demand for such products can be achieved as planned.

We cannot assure you that we will be successful in achieving the planned business operation, profits, production or distribution of such products. Should any of our business plans not materialise as planned or become delayed, our business operations may be greatly and negatively affected, which could result in a significant decrease in profits.

**We derive a substantial portion of our revenue from capacitive touch products, which are principally used in consumer electronics**

During the Track Record Period, we produced capacitive touch products including touch pads, multi-media buttons and touch screens, products which amounted to approximately 91.2%, 96.3% and 77.6% of our Group's revenue.

According to the iSuppli Touch Report, touch pads for PC have, in the past, accounted for over 90% of the overall touch pad sales value and this ratio has decreased to around 70% in the recent years and is predicted to remain at similar levels in the next few years. Our touch pad business is therefore highly dependent on, and susceptible to changes in the notebook computer market. Our

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business is also dependent on consumer spending on mobile handsets, portable media players and other consumer electronics, which fluctuates with economic conditions amongst other factors.

We anticipate that our Group’s production and sale of touch pads will continue to represent a significant portion of our turnover in the near future. In the event of (i) a decline in the demand for notebook computers and touch pads; (ii) the replacement of touch pads with touch screens in notebook computers and in the event that we are unable to respond promptly to such new development despite our capability to produce touch screens; (iii) touch pad and touch screen ceasing to be the mainstream interface for notebook computers; (iv) the actual adoption of capacitive touch devices by consumers is lower than we expected; (v) a vertical integration of consumer electronics OEMs and if the capacitive touch technology becomes commoditised to an extent which it is more cost-effective and time-effective for the OEMs to integrate rather than outsource; and (vi) there is competition from diversified semi-conductor manufacturers who are able to offer comparable capacitive touch products by utilising microchips, our Group’s business and profitability could be significantly and adversely affected.

### **We may not be able to enhance our existing products or production process to match the rapid pace of technological development.**

Although we generally produce to order, the rapid pace of the high technology industry requires the constant development of existing products or the invention of substitutes and some of our products may be rendered uncompetitive or obsolete if we fail to respond to new technology development.

Our products are generally incorporated into notebooks computers and other consumer electronics products. The industry is characterised by technological advances that result in the introduction of new products and new design techniques and changing industry standards. Our performance depends on our ability to continually upgrade our existing products and technical know-how, the timely recruitment of necessary skilled personnel and our deployment of new machinery to develop new products and technologies, all of which enables us to keep up with the latest technological trends.

Our Directors believe that touch pads and touch screen products are different as they have fundamental different cost profiles and the substitution effect will not be extensive in the near future. The iSuppli Touch Report further anticipates that the overall market size of capacitive touch pads will reach approximately 775 million units in 2013 from 379 million units in 2009, representing a CAGR of approximately 19.6%. However, there may be the possibility of touch screens eventually replacing touch pad technology and applications in the future, in particular in the mobile device segment, as mobile devices become smaller in size and the need for area devoted to visual interface becomes larger, in which case, despite possessing the relevant touch screen technology, touch pad products may become uncompetitive. In addition, there have been new developments of optical and pixel-embedded PC touch pads which potentially allow more sophisticated performance than capacitive touching technology when completed.

In addition, there is no assurance that wireless charging technology would not be replaced by other means of power transmission and plasma lighting would not be replaced by other alternative source of lighting which is more efficient and price competitive.

Despite our efforts to respond effectively to or maintain a competitive level in the constantly changing market of consumer electronics, we may not be able to improve our existing products,

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develop new products or purchase new machinery needed to upgrade our products and technologies in a timely manner or at all. We cannot accurately predict how emerging and future technological changes will affect our operations, our R&D projects or our competitive stance. The inability to respond to these and other technological developments in the market may lead to the loss of our customers, hence adversely affecting our business operations and profitability. If we are not able to respond to these new developments successfully or in a cost-effective way, our operations and financial results may be materially and adversely affected.

### **The promotion of our own “C-touch” brand may not succeed**

Our future business plan involves the production, marketing and distribution of our own patented products under our own brand, “C-touch” (which have yet to be commercialised). The plan is mainly based upon the assumption that we will be able to build and maintain brand awareness of, and a good reputation for “C-touch”. Succeeding in this regard will be imperative for attracting new customers, building a customer base and gaining commercial acceptance.

Our Directors cannot assure you that we will achieve the level of brand awareness or good reputation that we anticipate, nor can we guarantee the target level of customer preference for our “C-touch” brand. The lack of market acceptance and a low market demand for our “C-touch” brand may have material adverse effects on our business prospects and results of operations.

### **We may not be able to adapt to our customers’ varying requirements. Failure or limitations of our operation system or resources could affect our customer relationships**

On occasion, we may not be able to meet our customers’ requirements, due to a number of factors including the lack of technology, machinery, skills, expertise or manpower.

As part of our customer services, we strive to tailor our production processes and products to satisfy our customers’ requirements and demands, with the objective of maintaining long-term customer relationships. Our production lines are designed to run smoothly and effectively in order to deliver an acceptable yield to customers within an appropriate timeframe. We rely on various operation systems, including bar code tracing and real-time shop floor monitoring systems in different aspects of our production from inspection of supplies, manufacturing, testing, quality control to delivery. If these operation systems fail to function properly for technical reasons, our production process will be severely affected.

### **Our investment in the development of new technologies may not equate to commercial success**

We invest substantial resources into the research and development of new products and in the improvement of existing products. During the Track Record Period, our R&D expenses and capitalised development costs, trademarks and patents fees amounted to approximately HK\$9.7 million, HK\$12.2 million and HK\$22.3 million, respectively. Some or all of these developments may not translate into products that can feasibly, or cost effectively, be produced on a mass scale. Even if new products are successfully developed, they may not be commercially accepted. We cannot assure you that our inventions will be commercially accepted or profitable. Our revenue may be adversely affected if our investments in research and development do not result in proportionate financial benefits.

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### **Our business operations depend on the recruitment and retention of key personnel as well as R&D projects with external institutions**

Our past success has been largely dependent on our key personnel. In particular, our daily operation and strategic planning has to a large extent depended on the technical know-how and managerial experience of our key management team. Additionally, our past technological advancement and ability to remain competitive is significantly dependent on the technical expertise of our research and development team.

Our continual growth much depends on the retention of our existing key personnel and the recruitment of additional key personnel. We cannot give assurance that our key personnel will remain employed within our Group. If our Group loses any member of our key personnel and fails to find a suitable replacement, the current operations, future growth prospects and R&D capabilities of our Group may be harmed.

We have on several occasions, entered into R&D projects with external academic institutions on a project-by-project basis. They contributed to much of our research and development of our products. We do not have a long-term consultancy or development agreement with these institutions, nor can we assure you that they will continue to offer their services to our Group.

### **Protection of our intellectual property know-how and proprietary rights may be limited, and the potential cost to defend and enforce such rights may be high**

Our ability to successfully compete, relies on our possession of intellectual property rights (including patents designs and trademarks, in particular for our fingerprint biometric products to be commercialised under “C-touch” brand), trade secrets and know-how, as well as non-disclosure agreements, and other contractual provisions which facilitate the protection of our intellectual property.

Despite our efforts to protect our intellectual property rights, our efforts to protect such rights may be unsuccessful. We also cannot assure you that the relevant approval bodies will grant us the patents and designs or the scope of the patent or design applicants that we have filed for. Failure to protect or obtain the intellectual property rights we require for our business will reduce our commercial and competitive advantage, hence adversely affecting our business operation and profitability.

Certain jurisdictions offer limited or no intellectual property protection. We are not aware of any third party’s infringement of our intellectual property rights (registered or in application) during the Track Record Period but any infringement of our intellectual property rights may result in competitors taking our market share and our potential profit. To protect our intellectual property rights, we may have to divert substantial expenses and other resources, which may negatively impact our business and development.

We are not aware of our business having infringed any third parties’ intellectual property rights during the Track Record Period but we cannot be certain that our use of intellectual property, technology know-how and trade secrets will not infringe the patents or intellectual property rights of others and result in litigation. If we become involved in litigation, we may be required to bear substantial costs and reallocate significant resources, which could affect our operation, business and development. In addition, we may be required to obtain a licence or modify aspects of our technology and trade secrets or refrain from using them. The process of remedying any potential

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infringement could disrupt our production and hence harm our business operation, profitability and future growth.

### **If we are unable to pass on to our customers any future increases in the price of raw materials, our profitability and profit margins may be affected**

Major components that we source for the manufacturing of our products include PCBs, capacitors, connectors, mylars, diodes and flex cables, all of which we do not manufacture in-house. As such, we depend on our suppliers for the supply of such raw materials, some of which are designated suppliers of our customers. During the Track Record, we were able to shift the increase in prices of some of the raw materials we use to our customers by negotiating with the customers in relation to the price fluctuations of the raw materials and settling on new prices. Were our suppliers to further raise the prices of their materials or if the market price for these materials increases, and if we were unable to pass on those increases in raw material costs to our customers by raising the prices of our products, our profitability and profit margins may suffer.

### **We rely on our major suppliers**

During the Track Record Period, the five largest suppliers collectively accounted for approximately 60.0%, 64.9% and 47.1% of our total purchases of supplies respectively. Although we have in place long-term supply agreements with the majority of our five largest suppliers for the year ended 31 December 2009, we cannot assure you that they will always provide a reliable source of requisite supplies to us. Should these suppliers cease to supply raw materials to us and we are unable to find comparable substitutes, our operations may be adversely affected.

### **We may be affected by labour disruptions and rising labour costs**

As at the Latest Practicable Date, we had over 5,800 staff working in our Jiangmen production base in the PRC. Labour disruptions of any form or scale may have a negative impact on our operations and any material increase in labour costs in the PRC may, if the same cannot be passed onto our customers, adversely affect our profits. For risks relating to changes in labour laws in the PRC, please refer to the section headed “Risk Factors – Risks Relating to conducting business in the PRC – The PRC Employment Contract Law may adversely affect our business operations or financial position” in this document.

### **Any successful product liability claims made against us may have adverse effects on our reputation and financial position**

Despite our efforts to comply with safety standards and prevent defects in our products, we cannot give assurance that there will not be any future product defect claims. If any of our products are found to be defective, we may face potential claims from customers. Should we be liable for product defects that cause damage or physical injury to any person or property, we may have to provide compensation or comply with the decision of any legal authority, which could require us to bear substantial costs and allocate resources. Furthermore, in addition to the potential monetary losses, our business reputation may also be harmed, which could lead to a reduction in our product demand or loss of customers, causing material and adverse impacts on our financial performance. Even if such claims do not give rise to any liability on our part, we may have to divert funds and resources to defend against such claims, which may affect our financial position and business operation.

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### **We may not be able to manage our expansion effectively**

During the Track Record Period, our revenue grew from approximately HK\$674.3 million in the year ended 31 December 2007 to HK\$888.3 million in the year ended 31 December 2009, while our net profit grew from approximately HK\$79.6 million in the year ended 31 December 2007 to HK\$151.7 million in the year ended 31 December 2009.

We intend to expand our business operations by increasing our scope of products and production capacity. Such expansion may place a significant strain on our technical, production, managerial, operational and financial resources.

We cannot assure you that we will be able to manage our growth effectively and achieve, or maintain, a similar level of growth in revenue and profit we have enjoyed over the Track Record Period. Failure to expand our operations effectively may adversely affect our business operations, financial position and profitability.

### **Our business operation results may experience significant fluctuations**

Our operating results may fluctuate significantly, depending upon many factors that include, but are not limited to, the following:

- changes in demand for our products and in particular, the seasonality (such as the start of school terms and Christmas season), timing and volume of orders;
- our customers’ sales outlook, purchasing and production patterns and inventory adjustments;
- any advancements or changes in the technology in electronics products that make our products, especially touch pads, obsolete and hence reduce or entirely eliminate demand for our products or touch pads in particular;
- the effectiveness with which we manage our manufacturing processes, control our costs and integrate any potential future business ventures or plans;
- our ability to make optimal use of our available manufacturing capacity;
- changes in the cost and availability of labour, raw materials and other inputs (such as electricity), which often occur in the manufacturing industry and which affect our margins and ability to meet delivery schedules;
- our ability to manage the timing of our raw material purchases, so that raw materials are available when needed for production, while avoiding the risks of accumulating inventory in excess of immediate production needs;
- the ability to obtain financing in a timely manner; and
- local conditions and events that may affect the production our volumes, such as labour conditions, political instability and local holidays.

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Our operating results may fluctuate from period to period, due to the above mentioned factors and other risks discussed in this section, many of which are beyond our control. As a result, the Share price may be volatile and may not always accurately represent our longer-term value.

### **We require substantial amounts of capital for our business operations and future growth**

The touch sensing and fingerprint biometric industries involve a large amount of niche resources and R&D resources which require substantial amount of funding. During the Track Record Period, our capital expenditures (representing additions to property plant and equipment) amounted to approximately HK\$37.9 million, HK\$93.9 million, and HK\$133.3 million, respectively. Our maintenance and growth therefore depends on the ability to maintain sufficient funding. If our future capital expenditures exceed our cash resources, our financial position may be adversely affected and we may be required to seek additional debt or equity financing.

Any equity or debt financing, if available at all, may be on terms that we consider unfavourable and which could restrict our financial flexibility or ability to manage our business as we had intended. However, if we fail to obtain necessary funding, then we may be forced to delay projects, R&D activities or otherwise delay or cease business operations. As a result, we may not be able to expand our business or maintain our anticipated growth, and therefore our operating results may suffer.

### **Our insurance coverage may not be sufficient to cover the risks related to our operations and losses**

We possess all the insurance coverage that we believe to be substantially consistent with industry practice but we do not have insurance coverage for loss of profit. Our insurance policies are set out in the section headed “Business – Insurance” in this document.

We cannot assure you that we will not encounter events that are not covered by our insurance schemes, nor can we assure you that our insurance policies will be sufficient to cover all of the costs associated with events that result in financial loss. Any such losses incurred or associated liabilities may have a material adverse effect on our financial position if such losses or liabilities are not covered by our insurance policies.

### **We had net current liabilities as at 31 December 2007, 31 December 2008 and 30 April 2010**

We had net current liabilities of approximately HK\$65.5 million and HK\$78.6 million as at 31 December 2007 and 2008 respectively. Our net current liabilities position was principally attributed to the utilisation of short-term bank borrowings for financing our business operations and capital expenditure.

As we expect to continue to utilise short-term banking facilities to fund our operations, our failure to generate current assets to the extent that the aggregate amount of our current assets on a particular date exceeds the aggregate current liabilities on the same day, we will continue to record net current liabilities.

As at 31 December 2009, we did not have any net current liability. We had net current liabilities of approximately HK\$4.6 million as at 30 April 2010, being the indebtedness date, which was principally attributable to our Company’s declaration of dividends in the amount of approximately HK\$15.4 million in March 2010. For further details of the indebtedness and liquidity,

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financial resources and capital structure of our Group, please refer to the section headed “Financial Information” in this document. There is no assurance that we will always be able to maintain a net current assets position in the future.

Subsequent to 31 December 2009 and as at the Latest Practicable Date, our Group has obtained HK\$47 million long-term loans. Our intention is to replace our short-term borrowings with long-term borrowings. If we fail to replace our short-term borrowings with long-term borrowings or if we are unable to secure renewal of or an increase in credit facilities with existing lenders, or if alternative lenders are not available or are only available on terms that are commercially less acceptable to us, our business and financial position may be adversely affected.

### **Our historical financial information may not represent future performance, which may affect our future dividend policy**

Our historical financial information is based primarily on our sales performance of touch products. We plan to expand our business scope and capacity in the future. While we expect touch products to continue to represent a substantial portion of our revenue, we have been continuously implementing our business plans to produce fingerprint biometric devices, wireless charging devices and plasma lighting products from which we expect to derive an increasing percentage of our revenue.

Our future financial performance is subject to our business performance, future plans and profitability. We do not have results from the production and sales of fingerprint biometric devices, plasma lighting and wireless charging devices over the entire Track Record Period to offer an indication of our future performance. As a result, we cannot make any prediction as to our future performance nor can we give assurance that our future financial results will reflect our historical and current financial performance, or the financial results we anticipate.

Our future financial performance will directly impact our future dividend policy. The declaration and payment of dividends and the amount of dividends fall upon the discretion of our Directors. Over the Track Record Period, we declared dividends of HK\$51.0 million, nil and HK\$51.0 million, respectively. In March 2010, we declared an interim dividend in respect of the year ended 31 December 2009 of approximately HK\$15.4 million. Any proposed dividends by our Directors depend on various factors, including but not limited to, our operating results, future profits, financial position, regulatory capital requirements, working capital requirements, general economic conditions or any other factors which are considered relevant by our Board. As a result, our historical dividend distributions may not reflect our future dividend distribution policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis for predicting future dividends. Please refer to the section headed “Financial Information – Dividend and Dividend Policy” in this document.

Our Directors cannot assure you that our future performance will reflect our historic performance, nor can our Directors give you assurance that we will make future dividends payments or our future dividend policy will reflect our historical dividend payments.

### **Our machinery is subject to breakdown and depreciation and we may not be able to find replacements**

Our manufacturing operations are heavily dependent on the use of machineries, which are highly specialised and necessary for our production.

Machinery, despite our best efforts to conduct maintenance, will succumb to breakdown and depreciation. Our Directors cannot assure you that we will not require periodic machinery



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replacement or that replacements will be readily available. We may also require maintenance services of our machineries from external vendors which may or may not provide timely maintenance services. In such events, our financial resources will need to be raised or diverted to the servicing and replacement of machinery, hence affecting our operations and financial results.

### **Our operations are concentrated in our main production base in Jiangmen, China**

We house the majority of our production lines in our main production base in Jiangmen, China, together with our R&D facilities, warehouses and the majority of staff quarters. Only a few of our production lines are located in another factory complex in the proximity. Should the land on which our main production base is situated be subject to compulsory resumption by the Chinese government, or otherwise unavailable for any reason or should our production bases be damaged or destroyed by fire, floods or other natural or man-made disasters, our production and R&D activities may be seriously disrupted, thereby adversely impacting our operations and financial results. Please refer to the section headed “Certain of our owned and leased properties may be subject to title encumbrances” below in this section.

### **Some of our products may cause harmful or undesirable side effects on human health**

As part of our contract manufacturing services, we assemble different components of projectors for our customers, one of which, the light bulb, contains Krypton 85, which is a radioactive substance commonly found in other kinds of lamps. The light bulbs are supplied by Independent Third Parties and we are not involved in their production. However, in the course of handling the light bulbs, any rupture or bursting of the light bulb in the projector will release radioactive Krypton 85, which may be harmful to the health of end-users if the radiation is absorbed into the human body. We cannot predict the possible side effects the release of such radioactive substance may have on human health. If our products cause any harmful side effects to end-users or are perceived to have such harmful side effects, our products may be subject to recalls, as a result of which our operation and financial results will suffer and we may also experience reputational loss. There may also be lawsuits which could demand a substantial amount of resources and management time to defend and if lost, we may also suffer financial losses.

Street lamp lighting, which is an area of business we intend to diversify into in the future, also uses light bulbs which contain Krypton 85. The harmful side effects of this substance may result in us having to change our business strategy if such side effects generate a sufficiently significant concern amongst the general public, which could negatively affect our business plan and future financial performance.

### **Certain of our owned and leased properties may be subject to title encumbrances**

#### *Owned land and properties under mortgage*

The parcel of land and the seven buildings situated thereon which we own and occupy for our main production, warehousing and office purposes are charged as security in favour of a bank to secure certain of our bank borrowing obligations. Any transfer of such charged properties is subject to the prior written consent of such bank and should we fail to obtain such consent, we will lose the ability to freely transfer or otherwise dispose of such charged properties and our ability to raise financings from our owned properties may also be adversely affected.

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### *Owned properties without real estate ownership certificates*

We have constructed two buildings for use as a back-up power room and staff cafe on our New Material Base land parcel. In relation to the back-up power room and the staff cafe, our PRC legal advisers have advised that our failure to obtain the relevant planning and construction permits prior to the commencement of construction may result in the relevant local authorities ordering us to demolish the constructed buildings, confiscating any of our income arising from such constructed buildings and may levying fines and penalties of up to 10% of the construction costs per building from failing to obtain the relevant planning permits and up to 2% of the contractual price per building from failing to obtain the relevant construction permits. There was no contract value attributable to the two properties under the relevant construction arrangement between us and the main contractor. The back-up power room and staff cafe are not part of our production facilities and the main contractor did not charge our Group separately for the construction of the back-up power room and the staff cafe, which further complicates the financial consequences we may be forced to incur.

Furthermore, the back-up power room is not yet in use and contains no power supply equipment. We have a designated power cable for exclusive use as our main power supply, which is connected to the local power station. The back-up power room did not contribute any income to our Group during the Track Record Period and no income was derived from the staff cafe during the Track Record Period as it is for the use and enjoyment of our senior management staff as part of staff welfare and benefits.

### *Leased properties without land use rights certificates and real estate title certificates*

In relation to our leased properties marked 4, 5, 10, 11 and 12 under “Property Valuation – Group II – Property interests leased and occupied by the Group in the PRC” in Appendix VI to this document, the lessors do not possess valid land use rights certificates and real estate title certificates. As advised by our PRC legal advisers, there should not be any penalties on us but in the event that the relevant lessors are unable to prove valid title to such leased properties, or where any such leased properties is found to be illegal or unauthorised, the relevant property tenancy agreements may become invalid and unenforceable under PRC law, as a result of which, we may not be able to continue to occupy and use such leased properties.

The lessors have undertaken to resolve and handle any disputes and penalties arising from the leasing of such properties, in addition to which, we have obtained an indemnity from each of the relevant lessors in respect of any and all damage and losses (including reasonably expected economic losses) resulting from any such disputes and penalties. Nonetheless, there is no assurance that the lessors will honour their undertakings and indemnities in which case, we may suffer financial losses in relation to any disputes and penalties arising from such leased properties and related relocation costs.

### *We may have breached certain terms of our tenancy agreements in respect of leased properties in Hong Kong*

During the Track Record Period, we have not clearly delineated the use of properties leased in Hong Kong for our business operations. According to the tenancy agreements, use of the leased properties is limited to workshop and ancillary accommodation for non-domestic uses. However, we have actually used the properties as our office in Hong Kong and as a warehouse during the Track Record Period. We were not aware of the restricted use of the premises and therefore did not make any delineation in the use of the premises. As a result, we may have had infringed the relevant tenancy agreements, the permitted user and the deed of mutual covenants in respect of the leased properties.

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## **RISK FACTORS**

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We have relocated our Hong Kong business operations from the said leased properties but in the event that any legal action is taken against us arising from our historical breach of the said tenancy agreements or deed of mutual covenants, we may be exposed to litigation and/or penalties. As a result, our business operations and financial results may be adversely affected.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all potential losses, fines, penalties, costs and other damages in relation to (i) our failure to obtain the requisite permits for our constructed properties; (ii) any relocation from our leased properties to the extent that the damage, if any, that may be recovered from the relevant lessor for defective title or failure to register the lease agreements is not sufficient to cover such relocation costs; and (iii) the breach of any tenancy agreements and deed of mutual covenants.

### **We have not obtained the necessary licences, permits and approvals for our properties under construction**

In relation to our warehouse, production plant and staff quarters under construction at our production base in Jiangmen, we have not been able to obtain the requisite Construction Land Planning Permit (建設用地規劃許可證), Construction Work Planning Permit (建設工程規劃許可證) and Construction Work Commencement Permit (建築工程施工許可證). In relation to our new R&D centre under construction at our production base in Jiangmen, we have not been able to obtain the requisite Construction Work Commencement Permit (建築工程施工許可證). We received orders to cease all relevant construction work from Heshan Municipal Development Bureau in relation to our R&D centre and the production plant in March 2009, staff quarters in September 2008 and warehouse in November 2008. We will only resume the construction work upon the issuance of the necessary permits by the relevant authorities.

Our PRC legal advisers have advised that in relation to our failure to obtain the relevant planning and construction work commencement permits prior to construction of our warehouse, production plant and staff quarters, the relevant local authorities may order us to cease construction and/or demolish the constructed buildings, confiscate any of our income arising from such constructed buildings and levy fines and penalties of up to 10% of the construction costs per building from failing to obtain the relevant planning permits and up to 2% of the contractual price per building from failing to obtain the relevant construction work commencement permits. Our PRC legal advisers have further advised that in relation to our failure to obtain the relevant construction work commencement permits prior to construction of our new R&D centre, the local authority may levy fines and penalties of up to 2% of the contractual price for the R&D centre, namely RMB56,940, as the total price prescribed in the contract for preliminary construction of the R&D centre of RMB2,847,000. Based on the total amount of construction costs and contractual price for the warehouse, production plant and staff quarters, and the contractual price for the R&D centre, the amount of fines and penalties (if any) is estimated to be approximately RMB1.8 million. If any or all of the above actions are taken by the local authority and no suitable alternatives are available, we will not be able to expand our production capacity in the new production extension as planned and may also suffer financial losses in the form of lost potential income, fines and penalties, and lost construction expenses, any of which would materially and adversely affect our business operations and financial results.

We submitted an application to the local authority for planning permits and/or construction permits in respect of the four buildings under construction in August 2009. We cannot currently estimate the time it will take to obtain the permits and in the event that we are unable to timely resume construction work for the four projects, we will have to as a contingency plan, consider alternative properties and locations in the proximity, including the leasing of properties from third

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parties for use as staff quarters, warehouse and production plant. The search of alternative properties and possible relocations may adversely affect our operations and lead us to incur additional costs. We may also not be able to locate suitable properties as alternatives which may adversely impact our operations and financial results, our R&D capability and our expansion plans.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all potential losses, fines, penalties, costs and other damages in relation to our failure to obtain the requisite licenses and permits for our properties under construction.

### **We have not made mandatory contributions to medical insurance funds and housing provident funds prior to September 2009**

We have not made mandatory contributions to medical insurance funds and housing provident funds pursuant to the relevant PRC laws and regulations prior to September 2009 as we have not been requested by the relevant PRC authorities to make such mandatory contributions and there has been a general reluctance on the part of our employees to make the employees housing provident fund contributions as this would have the effect of reducing their net income. As far as we are aware, no administrative actions had been taken against us since our establishment of World Fair Heshan. We have commenced contributions to the medical insurance fund and the housing provident funds for all our eligible employees from September 2009 onwards and will continue to make full payments in the future in compliance with the relevant PRC laws. While we have obtained a written confirmation from the relevant local authority to the effect that wholly foreign-owned enterprises in Heshan City such as our operating subsidiary, World Fair Heshan, will not be mandatorily required to make contributions to medical insurance funds, there is no assurance that we will not be required to make up for any historical unpaid contributions or will not be subject to penalties imposed by local authorities in accordance with the relevant PRC laws and regulations which, in either or both cases, could adversely affect our financial results. According to our PRC legal advisers, the statutory maximum amount of penalty under the PRC law for failing to make contributions in respect of medical insurances, in addition to payment of all unpaid medical insurance contributions, is 0.2% of the unpaid contributions per day and the statutory maximum amount of penalty for failing to make contributions to the housing provident funds is RMB50,000 under the PRC law. As at 31 December 2009, we have made a provision of HK\$1,732,000 for the unpaid contributions to the housing provident funds. We have not made any provision for the unpaid contributions to medical insurance funds as according to the advice from our PRC legal advisers based on the written confirmation from the local authority, the likelihood of our Group being ordered to make up for the unpaid medical insurance contributions or pay a penalty is relatively low.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all potential losses, penalties, fines, damages and liabilities arising from such historical non-compliances.

### **Our Hong Kong subsidiary may be subject to additional tax liabilities**

In April 2010, World Fair Hong Kong, one of our subsidiaries incorporated in Hong Kong, received a notice of additional assessment dated 30 March 2010 from the Hong Kong Inland Revenue Department (the **IRD**) demanding additional profits tax in the amount of HK\$1.75 million for the 2003/04 tax year. World Fair Hong Kong also received a notice from the IRD of even date requesting an interview in relation to its tax affairs for the tax years from 2003/04 to 2008/09.

The additional tax of HK\$1.75 million was not accrued for but treated as a contingent liability in our consolidated financial information for the year ended 31 December 2009 (see Note 38 to the

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Accountant’s Report set out in Appendix I in this document) as we are of the view that given that there is insufficient information available to determine the ultimate outcome of the IRD’s review at this stage, there is no reliable basis for estimating and making provisions for such potential liability. We believe it is possible that the additional assessment was made of a protective nature from the IRD’s perspective to keep the 2003/04 tax year technically open as claims in relation to the 2003/04 tax year would otherwise be statutorily time-barred after 31 March 2010. Furthermore, the basis of the additional assessment adopted by the IRD is currently unclear to us. As such, the actual amounts of additional assessment for which we may be liable, if any, could be higher or lower than the amount indicated in the assessment notice and there is no assurance that such liabilities would not individually or in the aggregate materially affect our results of operations or financial position. World Fair Hong Kong has filed an objection with the IRD against the additional assessment and the IRD has agreed to an unconditional holdover of the assessment amount for the period during which the objection is under consideration, which may or may not be ruled in favour of our Group.

Furthermore, before the IRD completes its review process and any additional tax liabilities be settled, the IRD may issue additional assessments for the 2004/2005 tax year and/or any subsequent tax year(s) before claims relating to the relevant assessment year becomes statutorily time-barred. As a result, our Group may be subject to additional tax liabilities and there is no assurance that such liabilities will not materially affect our business operations and financial position.

Our Controlling Shareholders have agreed to indemnify our Group in respect of any costs or liabilities arising out of additional assessments in relation to the tax years from 2003/04 to 2008/09 for which our Group may be liable. For details in relation to the indemnity, please refer to the section headed “Statutory and General Information – Other Information – Estate Duty and Tax Indemnity” in Appendix VI in this document.

### **RISKS RELATING TO THE CAPACITIVE TOUCH PRODUCT, FINGERPRINT BIOMETRICS, WIRELESS CHARGING AND CONSUMER ELECTRONICS INDUSTRIES**

#### **The computers, consumer electronics and communications industries are cyclical and may result in fluctuations in the results of our operations**

Each of the computers, consumer electronics and communication industries has historically been characterised by rapidly changing customer patterns, rapid technological advances, short time-to-market schedules and short life cycles. Our revenue is heavily dependent on the sale of touch products, in particular, touch pads (see above section headed “Risks relating to our Group – We derive a substantial portion of our revenue from capacitive touch products, which are principally used in consumer electronics”) that are used in the production of notebook computers and other consumer electronics. As a result, the demand for touch products correlates with the demand for computer, consumer electronics and communication products. We cannot assure you that the demand for our products, especially touch pads, will not decrease in the future as a result of the general conditions of the computers, consumer electronics and communication industries, which are beyond our control. Were these industries to experience a drop in demand our business and financial results would be harmed.

#### **Our business is seasonal**

Our business is seasonal, with sales generally being lower in the first half of the year and higher in the second half of the year. During the three financial years ended 31 December 2009, our sales in the first quarter of each year represented approximately 15.7%, 19.5% and 16.9% of our annual revenue and our sales in the third quarter of each year represented approximately 33.1%,

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## **RISK FACTORS**

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29.4% and 24.7% of our annual revenue respectively. Our sales in the fourth quarter of each of the years ended 31 December 2007, 2008 and 2009 represented approximately 30.3%, 27.6% and 38.5% of our annual revenue respectively. Although our Track Record Period figures may not reflect our future sales patterns, our profitability may be adversely affected should there be any reduction in demand for our products in the third and fourth quarters in any year.

### **Our business and operations may be adversely affected by the current global economic crisis**

The current global economic crisis is adversely affecting the economy in the U.S. and many other parts of the world, including those in which we have operations. As a result, demand for our products may decline and the prices of our products may need to be lowered in order to retain our existing customers or attract new customers, which would adversely affecting our profit level.

If any of our customers suffer financial difficulties as a result of the current global economic crisis, the demand for our products may be reduced and these existing orders may be cancelled. If any of our suppliers suffer financial difficulties as a result of the current global economic crisis, our ability to obtain supplies may also be affected. We cannot assure you that our customers or suppliers will not be affected by the current financial crisis. In such circumstances, our manufacturing operations and financial performance may be adversely affected.

Furthermore, the current economic crisis has also caused financial institutions to reduce credit facilities to borrowers. We may therefore need to re-negotiate our existing facilities. If we fail to secure new facilities on favourable terms to us, or at all, our business operations and financial position may be adversely affected.

### **We rely on the market demand for our customers’ products, which is in turn dependent on global economic conditions**

Some of our products, such as touch pads and fingerprint biometric devices are sold onto customers in notebook computers and consumer electronics industries who will incorporate our products into their production process by installing or integrating our products into theirs. We do not control or influence our customers’ manufacture, promotion, distribution or pricing strategies. The demand for some of our products is therefore dependent on the market demand for our customers’ products. We are therefore dependent on our customers’ ability to market, promote and distribute their products effectively. Like other manufacturers of consumer electronics components, our business and financial results could be adversely affected by any decrease in worldwide demand for notebook computers, consumer electronics and communication products which have experienced cyclical downturns in the past.

### **There is uncertainty over laws, rules, regulations and governmental policies relating to personal privacy or the collection of personal data**

Fingerprint biometrics is a relatively new technology to be applied in daily life and business contexts and therefore, its future market remains uncertain. Concerns over the potential breach of personal privacy and personal data protection arising from the use of fingerprint biometrics may lead to changes in laws, regulations, rules, codes, policies of governmental or regulatory bodies or general perceptions relating to personal privacy or the collection of personal data in the jurisdictions in which we operate. As fingerprint biometric devices may account for an increasing proportion of our of sales volume and revenue in the foreseeable future, any unfavourable changes in the legal, regulatory and social landscapes of fingerprint biometrics may harm our sales, revenue and profit level, and in turn materially and adversely affect our financial condition and business operations.

## **RISK FACTORS**

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### **The growth of fingerprint biometric market may be restricted**

We plan to produce more fingerprint biometric devices but the growth of the fingerprint biometric industry may be restricted for a number of reasons, including but not limited to the following:

- fingerprint sensors still cost more than competing technologies and their use is restricted to products where application of such technology is viable;
- legislation in certain countries prohibits certain uses of fingerprint biometrics; for example, it is illegal to use biometrics for time and attendance record keeping in France;
- consumer awareness of the benefits of fingerprint biometrics is generally low. Despite an increasing number of PC vendors integrating fingerprint sensors into their PC products, the fingerprint sensor and the security it offers have not taken a primary role in the marketing of the PC. As a result, fingerprint sensors installed in PCs are not utilised to their full capacity;
- there are other competing biometric technologies such as iris, face and hand recognition technologies, which become increasingly available;
- there are ongoing concerns from the general public about the collection and storage of personal data via fingerprinting and consumers may be reluctant to be fingerprinted in fear that their personal information would be abused or leaked; and
- fingerprint biometrics is a relatively new technology and there are concerns amongst business and consumer users about the reliability, durability and data security aspects of the technology.

The slow down the growth of the fingerprint biometrics market for whatever reasons will in turn, hinder our ability to promote or sell our fingerprint biometric devices or put our fingerprint related R&D projects into commercial production, all of which would adversely affect our business operations and financial results.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

#### **Our operations are subject to inherent uncertainties of the PRC’s economic, political and social conditions**

A majority of our operations are located in the PRC. The PRC’s economy differs from the economies of most countries belonging to the Organisation of Economic Cooperation and Development in its structure, the level of government involvement private development, and the rates of growth, capital reinvestment, allocation of resources and inflation. Prior to 1978, the PRC’s economy was a planned economy. Since the PRC’s adoption of the “open door” reform policy in 1978, increasing emphasis has been placed on market forces in the development of the PRC’s economy by implementing measures to encourage growth and to guide the allocation of resources. We cannot assure you that the PRC government will continue to pursue a policy of economic reform,

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nor can we predict how the PRC’s political, economic and social conditions and policies will affect our future business operations.

Our operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Furthermore, a significant portion of economic activities in the PRC are export-driven at present and, therefore, are affected by development in the economies of the PRC’s principal trading partners and other export-driven economies.

Many of the economic reforms undertaken by the PRC government are unprecedented, which may be subject to change, revision or abolition. We can offer no assurance that the PRC government will continue to pursue a policy of economic reform. The policies and other measures taken by the PRC government to regulate the economy could have a material negative impact on the PRC economy, which may adversely affect our operating and financial results.

### **Our operations are subject to inherent uncertainties of PRC’s legal system**

Unlike the adversarial legal system in Hong Kong, the PRC legal system is based on written statutes, and therefore prior court decisions are not precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, these laws and regulations are not fully developed and are subject to change, making the interpretation and enforcement of such laws uncertain. These uncertainties limit the reliability of legal protections available to us, and may negatively affect our business, results, operations and financial conditions.

We cannot predict the effect of future developments in the PRC legal system, particularly with regard to property rights and intellectual property protection. Additionally, we may require the procurement of additional permits, authorisations and approvals for our existing business and future projects, which may affect our operations and future plans.

### **PRC’s governmental control of currency conversion may adversely affect our financial performance**

Our business operates internationally and is therefore exposed to foreign exchange risks arising from the fluctuations in the foreign exchange rates of various currencies primarily with respect to the US\$. Since our costs of sales and operating expenses are incurred in several foreign countries or regions, including the U.S., China, Hong Kong and Taiwan, we are exposed to foreign currency exchange risk. Currently, the RMB is not a freely convertible currency and its value is subject to change based upon the prevailing PRC government’s policies. These policies depend to a large extent on domestic and international economic and political developments, as well as levels of supply and demand in local markets.

Under the existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying



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with certain requirements. However, foreign exchange transactions for capital account purposes, which may include overseas investment and various international loans, require prior governmental approval. There is no assurance that the PRC will not impose further restrictions on the convertibility of the RMB, which will, to a certain extent, affect our financial condition.

### **Foreign exchange and conversion risks may lead to fluctuation in value of RMB, which could adversely affect our operation costs**

Since 1994 and until recently, the conversion of RMB into US\$ was based on the rates set by the People’s Bank of China, which were set daily based on the previous day’s PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since then, the official exchange rate for the conversion of the RMB to US\$ has been generally stable. However, we cannot assure you that the exchange rate will remain stable in the future. On 21 July 2005, the People’s Bank of China announced a reform of its exchange rate system and revalued the RMB to RMB8.11 = US\$1.00. Under the reform, the RMB will no longer be pegged to the US\$ but will instead be allowed to fluctuate within a narrow and managed band against a basket of foreign currencies (including the US\$). Moreover, the PRC government is expected to adopt further reforms of its exchange rate system in the future including revaluing RMB and making RMB freely convertible. However, it is not predictable if or when these further reforms will occur.

A portion of our cost of sales is denominated in US\$ and a large portion of our loans are denominated in US\$ as well. Any unfavourable movement in the RMB – US\$ exchange rate may increase our costs in RMB terms or increase our outstanding loan obligations in RMB terms, either of which could materially affect our financial results.

Any significant fluctuation in the exchange rates between the RMB and the US\$ or vice versa, may also have a significant impact on our business and may also affect the value, translated or converted into US\$, of our Group’s revenue and net income.

Our Group currently does not hedge any of our exchange rate exposure related to fluctuations in the relative values of the US\$ and RMB, and we cannot assure you that we would be able to enter into such agreements on commercially reasonable terms or at all in the future, or if we were to do so, that these agreements would protect us fully against any such currency exchange rate risk.

### **We may not continue to enjoy tax concessions in the PRC**

In accordance with the current Foreign Investment Enterprises and Foreign Enterprise Income Tax Law (中華人民共和國外商投資企業和外國企業所得稅法), a foreign investment enterprise engaged in manufacturing for a term of at least 10 years is entitled to exemption from the PRC enterprise income tax for the first two years commencing from their first profit-making year, and entitled to a 50% relief from the PRC enterprise income tax for the following three years. Pursuant to such tax law and Notification of the State Council on carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa [2007] No. 39) (《國務院關於實施企業所得稅過渡優惠政策的通知》(國發[2007]39號)), we enjoy the tax exemption from 2008 to 2009. Tax exemptions and benefits that are granted to us can be revoked or reduced by the government, and may vary according to future changes in relevant legislation. We cannot assure you that our tax exemptions and benefits will be continued in the future. In the event that our tax benefits are reduced, our financial performance and profit levels may be adversely affected.

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### **The PRC Employment Contract Law may adversely affect our business operations or financial position**

The PRC Employment Contract Law (中華人民共和國勞動合同法) (the “ECL”) became effective on 1 January 2008. Compliance with the requirements under the ECL, in particular, the requirements of severance payment and non-fixed term employment contracts, may increase our labour costs.

We may not be able to efficiently terminate non-fixed term employment contracts under the ECL without cause. We are also required to make severance payments to fixed term contract employees when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. A minimum wage requirement has also been imposed by the ECL.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例) (the “Regulations”), which also became effective on 1 January 2008, employees who have worked continuously for more than a year are entitled to paid leave of 5 to 15 days, depending on the length of work of the individual employee.

Compliance with the ECL and the Regulations may adversely affect our labour and business operation costs, and adversely affect our results of operations.

### **Inflation in the PRC may affect our production costs, which may have a negative impact on our financial results**

The majority portion of our operations are located in the PRC. Our production costs may, as a result, increase as a result of increasing inflation rates. We cannot predict the future levels of inflation in the PRC. If prices for our products rise at a rate so that does not keep up with increases to our operation costs, our business operations, financial performance and growth plans may be negatively affected.

### **Our operations could be materially and adversely affected by health epidemics or other outbreaks which are beyond our control**

In April 2009, a swine flu broke out in Mexico and spread worldwide, causing loss of lives and widespread panic. During the outbreaks of swine flu and previously, the avian flu and the severe acute respiratory syndrome (SARS) in 2003, the World Health Organisation has issued travel advisory against non-essential travel to some of the Asian countries, including China. As a result, the level of economic activity in these affected regions had been significantly reduced during that period.

We believe that a recurrent outbreak of SARS or avian flu, the continual threat of the swine flu or any outbreak of another severe communicable disease in the PRC, could result in material a slowdown of economic growth in the PRC and its surrounding regions and disruptions to our operations, as well as those of our customers and suppliers, which could have a material adverse effect on our Group’s operations, financial conditions and business.

Our business is also subject to natural disasters or other acts of God which are beyond our control and which may adversely affect the economy, infrastructure and livelihood of the economy

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and society of China. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our production facilities, disrupt our distribution channels and destroy our markets, any or all of which could materially impact our revenue, costs, financial conditions and growth potentials. The potential for war or terrorist acts may also cause uncertainty leading to our business to suffer in the ways that we cannot predict. Our business and operating results may materially and adversely be affected as a result.

### **Our business may be materially and adversely affected by the relationship between the PRC and the U.S.**

Some of our customers and the majority of the end-users of our products are international brands of consumer electronics based in the U.S., which impose annual quotas on imported products from the PRC. Should there be any changes to the relationship between the PRC and the U.S., leading to a reduction of import quotas from the PRC, our business operations and market share may be materially and adversely affected, thereby having a negative impact on our financial results.

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**DIRECTORS AND PARTIES INVOLVED**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Wong Kwok Fong	Flat 27C, Block 5 Grand Pacific Views Siu Lam, New Territories Hong Kong	Chinese
Ms. Ching Pui Yi	Flat 27C, Block 5 Grand Pacific Views Siu Lam, New Territories Hong Kong	Chinese
Mr. Cheung To Keung	Flat 5, 25/F Kwai Him House Kwai Yin Court Tai Wo Hau New Territories Hong Kong	Chinese
Mr. Lam Ho Sang	Room 03, 20/F Block B, Kay Shun House 20 Chun Wah Road Kwun Tong, Kowloon Hong Kong	Chinese
Mr. Tan Hui Kiat	Block 22, Simei Street 1, #02-09, Melville Park, Singapore 529945	Singaporean
<i>Independent non-executive Directors</i>		
Mr. Wong Chun Bong	Flat 10B 153 Argyle Street Kowloon Hong Kong	Chinese
Mr. Lee Kwok On, Matthew	Flat A Block 8, The Paramount 23 Shan Tong Road Tai Po New Territories Hong Kong	Chinese
Mr. Chan Wai	7/A Reading Place No. 5 ST Stephen’s Lane Mid-Level Hong Kong	Chinese

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## **DIRECTORS AND PARTIES INVOLVED**

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### **Legal Advisers to our Company**

as to Hong Kong law:  
Gordon Ng & Co  
in association with  
O’Melveny & Myers  
31st Floor, AIA Central  
1 Connaught Road Central  
Hong Kong

as to PRC law:  
Jingtian and Gongcheng, Attorneys At Law  
34/F, Tower 3,  
China Central Place  
77 Jian Guo Road,  
Chaoyang District,  
Beijing 100025,  
PRC

as to Cayman Islands law:  
Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

as to Taiwan law:  
Lee and Li, Attorneys-at-Law  
7/F 201 Tun Hua N. Road  
Taipei, Taiwan

### **Auditor and Reporting Accountant**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22/F Prince’s Building  
Central  
Hong Kong

### **Property Valuer**

Jones Lang LaSalle Sallmanns Limited  
17/F Dorset House  
Taikoo Place  
979 King’s Road  
Quarry Bay  
Hong Kong

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## **CORPORATE INFORMATION**

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<b>Registered Office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Headquarters and Principal Place of Business in Hong Kong</b>	Suites 2601 – 4, 26/F Tower 2, Nina Tower 8 Yeung Uk Road TWTL 353 Tsuen Wan New Territories Hong Kong
<b>Website Address</b>	<a href="http://www.wvtt.hk">www.wvtt.hk</a> ( <i>information on this website does not form part of this document</i> )
<b>Company Secretary</b>	Mr. Cheung Chi Keung, <i>FCCA, CPA</i>
<b>Authorised Representatives</b>	Mr. Wong Kwok Fong Flat 27C, Block 5 Grand Pacific Views Siu Lam, New Territories Hong Kong  Mr. Cheung Chi Keung E-1-18, Fairview Park Yuen Long, New Territories Hong Kong
<b>Audit Committee</b>	Mr. Wong Chun Bong (Chairman)  Mr. Lee Kwok On, Matthew  Mr. Chan Wai
<b>Remuneration Committee</b>	Mr. Wong Kwok Fong (Chairman)  Mr. Wong Chun Bong  Mr. Chan Wai
<b>Nomination Committee</b>	Mr. Wong Kwok Fong (Chairman)  Mr. Wong Chun Bong  Mr. Chan Wai

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## **CORPORATE INFORMATION**

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**Principal Bankers**

Hang Seng Bank Limited  
Head Office  
83 Des Voeux Road Central  
Hong Kong

Bank of China Limited  
Jiangmen Heshan sub-branch  
No. 228 Xin Cheng Road  
Sha Ping  
Heshan  
Guangdong, PRC

**Cayman Islands Principal Share Registrar and  
Transfer Office**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands

## **INDUSTRY OVERVIEW**

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**Our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from relevant sources, but such facts and statistics have not been independently verified by our Company, we do not make any representation as to the accuracy or completeness of such information which may not be consistent with other information available and may not be accurate and should not be unduly relied upon.**

**It should also be noted that we commissioned iSuppli Corporation, a market intelligence company which offers electronics and technology research and advisory services, to prepare certain information, statistics and data on touch pad, fingerprint and wireless charging industries for inclusion in this document.**

## **SOURCES OF INFORMATION**

### **iSuppli Corporation**

iSuppli Corporation, a company founded in 1999 and based in El Segundo, California, operates as a market intelligence company which offers electronics and technology research and advisory services, as well as produces analysis reports and databases. iSuppli Corporation is an Independent Third Party. Our Company commissioned iSuppli Corporation to conduct market analyses of, and produce the iSuppli Touch Report and the iSuppli WC Report.

The information, data, and forecasts contained in the iSuppli Touch Report came from primary and secondary sources. Primary market research methods included interviews with key touch pad manufacturers, component suppliers, and customers. Unit system and touch pad market statistics are based on reported sales and/or derived from the proprietary market share data and databases of iSuppli Corporation. iSuppli Corporation also utilised company financial statements and other public data sources. Historical patterning, econometric analyses, and price-volume analyses were all used to analyse and explain market data and trends.

Analyses and forecasts contained in the iSuppli Touch Report are based on the following assumptions at the time of compiling such report:

- The macro economy will continue on a slow recovery path, with investment neither dropping precipitously from current levels nor suddenly increasing.
- Technological developments in touch pads, touch screens, and fingerprint sensors will continue at a rate appropriate to the current level of investment in research and development.
- Windows 7 is released on schedule in fall 2009.
- Mobile computing will grow in popularity such that the markets for notebooks (including netbooks) and handheld communication devices will grow.



## **INDUSTRY OVERVIEW**

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The information, data, and forecasts contained in the iSuppli WC Report came from primary and secondary sources. Primary market research methods included: interviews with key wireless charging technology providers, semiconductor vendors, wireless charging solution providers, and device OEMs. Unit sales and market statistics are based on the discussion between solution vendors and/or derived from iSuppli proprietary expertise in the power industry and iSuppli proprietary databases. iSuppli also utilises other public data sources. Historical technology patterning, econometric analyses, and price-volume analyses were all utilised to analyse and explain market data and trends.

Analyses and forecasts contained in the iSuppli WC Report are based on the following assumptions at the time of compiling such report:

- An industry wide wireless charging standard will soon be established to address the interoperability and compatibility issues.
- The mobile handset market will continue to grow, and reach 1.5 billion units by 2013.
- PMP/MP3 players and Digital Still Cameras (DSCs) are reaching market saturation.
- The Mobile PC category will continue to experience robust growth.
- After-market wireless charger manufacturers will continue to innovate and provide complete solutions for the needs of charging devices with different power profiles simultaneously.

### **DisplaySearch, LLC**

DisplaySearch is a provider of information, consulting and conferences on the display supply chain and display-related industries. DisplaySearch offers regional and global analysis of display products, including technology assessments, trend reports, studies and surveys. DisplaySearch is an Independent Third Party.

### **International Biometric Group, LLC**

IBG is a research, consulting and systems integration firm addressing the identity management and security needs of government and commercial clients. IBG is an Independent Third Party.

### **IMS Research**

IMS Research is a supplier of market research to the global electronics industry. IMS Research is an Independent Third Party.

## INDUSTRY OVERVIEW

### ResearchInChina

ResearchInChina is a provider of China business intelligence with services including strategic planning, product and sales forecasting, risk and sensitivity management, and as investment research. ResearchInChina is an Independent Third Party.

### TOUCH PAD MARKET

#### Overview

A touch pad, also called a trackpad, is a pointing device used to translate a user’s finger position and motion into effect on a display screen. At present, most notebook computers (including netbooks) use touch pads as a “cursor navigator”. For a long time, touch pads have become a standard accessory of most notebook computers due to advantages such as stable performance and convenient operation.

Capacitive touch pad technology has been widely used since 2004 in high-volume consumer electronic devices including notebooks, netbooks and other handheld devices.

#### Touch Pad Worldwide Sales Revenues

Set forth below is the global touch pad sales revenue from 2005 to 2008, and the estimates by iSuppli Corporation for 2009 to 2010.

#### Worldwide touch pad sales revenues by leading touch pad vendors

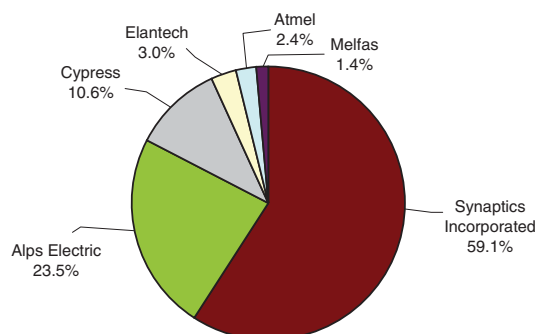
2005	2006	2007	2008	2009E	2010E
<i>(US\$'000)</i>					
293,170	376,752	494,804	549,484	534,629	556,696

*Source: iSuppli Touch Report*

#### Touch Pad Analysis by Vendor

The pie chart below shows the worldwide touch pad sales revenue in the year 2008 by the leading vendors.

**Worldwide Touch Pad Sales Revenue by Leading Touch Pad Vendors in 2008**



*Source: iSuppli Touch Report*

## **INDUSTRY OVERVIEW**

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The global leader in terms of worldwide touch pad sales in 2008 is our major customer, Synaptics, as indicated in the above chart, followed by Alps Electric, Cypress and Elantech.

### **Development of Touch Pad**

In general, there were four major technologies for touch pads, namely, resistive, surface capacitive, pixel-embedded and infrared optical. Interest in touch screens surged since the mid 2000s and many previously obscure technologies simultaneously reached commercial viability. These included projected capacitive, camera-based optical, optical waveguide, force-sensing and bending-wave touchpads. With the expiration of key patents from 3M and Elo, a number of new players have entered into surface capacitive and SAW touch pad market.

### **Touch Pad Supply Chain**

Touch technology companies and controller IC providers play the dominant role as touch pad suppliers. Some of these companies rely on outsourced semiconductor manufacturing and assembly services, generally delivered in China and Southeast Asia where dozens of contract manufacturing firms are located.

In the case of notebooks, the touch pad supplier sells a touch pad module to the electronics manufacturing services (EMS) provider or original design manufacturer (ODM) which will incorporate it into the product. A more recent alternative is to supply a simpler product – just the controller IC and a programmable interface – to the EMS/ODM or directly to the ODM.

### **Major Types of Touch Pad Technologies**

Currently, there are four key types of technology relevant to touch pads, namely, capacitive, optical, pixel-embedded and resistive.

Capacitive is the near-exclusive type of technology used for touch pads in notebook computers, PMPs and mobile phones, etc. Resistive was used in the first track pad and is the main technology in touch screens, but does not serve the high-volume touch pad markets. Optical and pixel-embedded types are emerging technologies for touch pads.

As mentioned above, capacitive technology dominates the touch pad market. Compared to resistive, capacitive is significantly more durable and accurate, although more expensive. Most importantly, resistive touch pads have much more difficulty executing multi-touch, which will be increasingly required. As a result, resistive type offers no true competition in touch pads. Optical and pixel-embedded technologies are newly developed and more expensive than capacitive technology. Although they offer the potential for more sophisticated performance, mass adoption is unlikely in the near future at its present pricing.

Being the most optimal technology for portable computers, capacitive technology sees its opportunities along with the expansion of the notebook computer markets. It also allows innovative formats for mobile devices such as the click wheel. Moreover, technological advancement due to the growth of touch screens benefits touch pads and is expected to propel the expansion of the touch

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## INDUSTRY OVERVIEW

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button market. Nonetheless, the interaction between the markets for touch screens and touch pads proffers mixed potential. In products that are increasingly incorporating a touch screen (such as mobile phones), there may be no need for a touch pad. However, our Directors are of the view that such substitution will not be extensive in the near future due to the fundamentally different cost profiles between touch pads and touch screens. Nonetheless, a company that supplies touch technologies for all modes – touch screens and touch pads alike (on both portable computers and in mobile devices) – will have an excellent opportunity to create a strategic product mix that serves expanding markets in each mode.

### Key Applications of Touch Pads

There are two major market segments for the application of touch products, namely, portable laptop computers and mobile devices.

The dominant application is portable laptop computers where it serves as the integrated mouse function.

Mobile devices are an evolving market segment for touch pads. In addition to the use in mobile phones and smart phones, the most common use of touch pads is in PMPs and MP3 players where the touch pad is used to navigate through playlists and function menus.

### Capacitive Touch Pad Market Forecasts

#### Portable Computer Outlook

The most important platform for touch pads is portable laptop computers (including netbooks) and some smaller computing devices. Despite the economic downturn in recent years, the portable laptop computers market is expected to continue to grow in 2010, according to iSuppli Corporation. Set forth below is the unit shipment of portable laptop computers from 2006 to 2008 and the estimate by iSuppli Corporation for 2009 to 2013.

#### Portable laptop computer unit shipment

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
	<i>(thousand units)</i>							
Notebooks (excluding netbooks)	79,107	102,056	131,743	143,499	163,873	185,131	210,187	234,836
% Growth	N.A.	29.0%	29.1%	8.9%	14.2%	13.0%	13.5%	11.7%
Netbooks	456	1,442	7,873	12,479	15,185	19,892	21,284	22,560
% Growth	N.A.	216.2%	446.0%	58.5%	21.7%	31.0%	7.0%	6.0%

*Source: iSuppli Touch Report*

Touch pads are essentially found in the majority of notebooks currently. The market for these devices is expected to expand. Meanwhile, the market for touch pads in handheld devices like handheld computers, PMPs, MP3 players, mobile phones and smart phones is also expanding.

## INDUSTRY OVERVIEW

The overall market size of capacitive touch pads is estimated to reach approximately 379 million units in 2009 according to iSuppli Corporation and further increase to approximately 775 million units in 2013, representing a CAGR of approximately 19.6%. Set forth below is the unit shipment of touch pads from 2006 to 2008, and the estimate by iSuppli Corporation for 2009 to 2013.

### Touch pad unit shipment by applications

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
	<i>(thousand units)</i>							
Notebook (excluding netbook)	79,186	102,158	131,875	143,929	164,200	185,464	210,377	235,071
Netbook	456	1,443	7,881	12,491	15,200	19,912	21,305	22,582
PMP/MP3	46,400	59,500	119,810	125,360	135,913	140,493	152,630	160,729
Mobile/smart phone	11,000	63,109	77,708	97,499	131,129	198,197	248,096	356,504
<b>Total touch pad</b>	<b>137,043</b>	<b>226,211</b>	<b>337,274</b>	<b>379,281</b>	<b>446,443</b>	<b>544,066</b>	<b>632,408</b>	<b>774,886</b>

Source: iSuppli Touch Report

Worldwide sales revenue of touch pads for portable laptop computers have been falling from 2007 to 2009 according to iSuppli Corporation despite the growth in unit shipment during the same period. However, with the increase in unit sales of the high-price unlimited-touch touch pads, such decreasing trend is expected to turn round from 2010 onwards as forecasted by iSuppli Corporation. Set forth below is the global touch pad sales revenue from 2006 to 2008, and the estimate by iSuppli Corporation for 2009 to 2013.

### Worldwide touch pad sales revenue

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
	<i>(US\$'000)</i>							
Notebook (excluding netbook)	336,541	408,632	402,218	373,137	379,928	430,415	531,195	706,323
Netbook	1,643	4,763	23,643	31,853	34,594	42,372	44,316	49,908
PMP/MP3 players	34,800	41,650	83,867	75,216	75,840	72,907	73,662	72,140
Mobile/smart phone	7,150	39,759	46,625	56,550	70,731	99,424	115,744	154,676
<b>Total touch pad</b>	<b>380,134</b>	<b>494,804</b>	<b>556,352</b>	<b>536,756</b>	<b>561,093</b>	<b>645,118</b>	<b>764,916</b>	<b>983,048</b>

\* Touchpad module in the case of notebook/netbook; IC and interface only in the case of mobile devices.

Source: iSuppli Touch Report

According to iSuppli Corporation, the market size of capacitive touch pads is estimated to reach approximately US\$537 million in 2009 and is expected to grow to approximately US\$983 million in 2013, representing a CAGR of approximately 16.3%.

### Touch Pad Analysis by Region

Nearly all touch pads are delivered to the region of end-product assembly. With the advantage of low-cost and short production cycles, Asia Pacific has been the major production base worldwide providing assembly services or electronics manufacturing services. As a result, Asia Pacific is the major market of touch pads. iSuppli Corporation estimated that in 2008, approximately 90% of touch

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pads are delivered in Asia Pacific, approximately 9% in Europe, the Middle East and Africa and approximately 1% in Americas.

### **Touch Pad Analysis by Market**

The mobile device market is more volatile and this market is rapidly changing because of the rise in touch screens. All players in this market are offering touch screen products in addition to touch buttons, wheel, etc.

### **Our Touch Product Business Overview**

The average unit price for our capacitive touch pads decreased during the Track Record Period. Our Directors are of the view that the decrease in the average unit price for our capacitive touch pads was mainly attributable to factors including general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

Touch pads have existed for more than a decade and there have been lowering costs, increasing competition and declining price trend when compared with the time they were first introduced to the market. Our Directors however believe that, as supported by the forecast of iSuppli Touch Report, the product life-cycle of touch pads is at a growth stage and the overall market size of capacitive touch pad is still forecasted to grow and will reach a CAGR of 19.6% in 2013 from 2009. Our Directors believe that the sustainability of our Group’s business growth is maintained by our diversified business portfolio, innovative R&D team and visionary management. Our Group has already tapped into the capacitive touch screen market which has an increasing market share over conventional resistive touch screens. Being an experienced manufacturing solutions provider for capacitive touch products, our Directors believe that our Group is well positioned to capitalise on growing market adoption for both capacitive touch pads and touch screens.

Our Group’s competitors in respect of capacitive touch products include (i) a NASDAQ listed company which provides electronics manufacturing services to original equipment manufacturers, which also provides design resources to end-to-end vertically integrated global supply chain services, including packaging and transportation worldwide; (ii) a Thailand listed company which is a contract manufacturer with its production bases in Thailand and engaged in the provision of various assembly services in the electronics industries which includes PCBA, COB and IC assembly; and (iii) a Thailand company which provides electronics manufacturing services in microelectronics module assembly (including PCBA, testing and box build assembly) and IC packaging and exclusive line assembly. Our Directors believe that there is increasing number of players in the capacitive touch market.

## **TOUCH SCREEN MARKET**

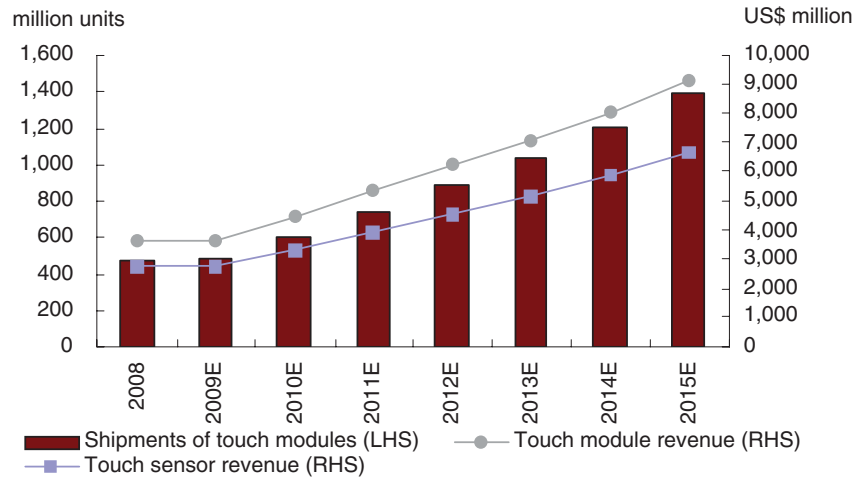
### **Overview**

The market for touch technology remains strong with expected future growth considerably exceeding that of the general display industry. According to DisplaySearch, shipments of touch modules are expected to increase to approximately 1.4 billion units by 2015 from approximately 483 million units in 2009, representing a CAGR of approximately 16.9%, which is approximately 3.4

## INDUSTRY OVERVIEW

times faster than the growth of the display industry. Touch module revenues are expected to rise from approximately US\$3.66 billion in 2009 to approximately US\$9.08 billion by 2015, representing a CAGR of approximately 13.9%, which is approximately 10.3 times faster than the growth of the display industry. Also, sensor revenues are expected to rise from approximately US\$2.77 billion in 2009 to approximately US\$6.61 billion by 2015, representing a CAGR of approximately 13.4%, which is approximately 9.9 times faster than the growth of the display industry.

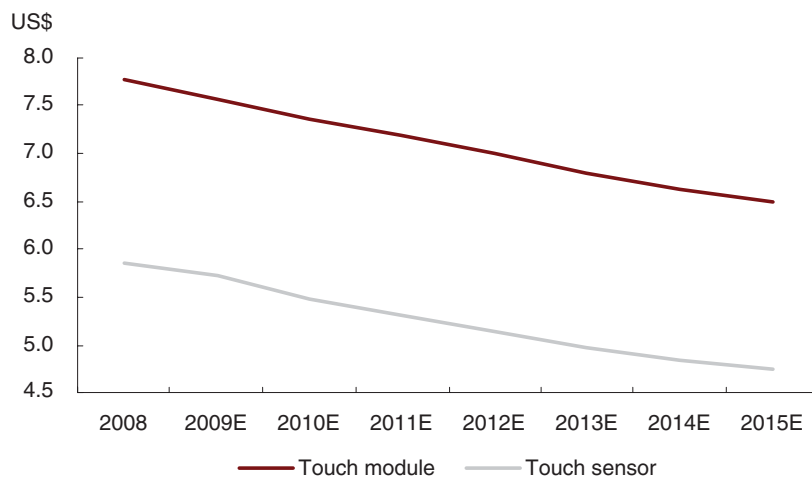
### Unit shipment and revenue of touch module and touch sensor



Source: DisplaySearch

Contrary to the shipment growth, the overall average selling price of touch modules and sensors is expected to fall from approximately US\$7.78 and approximately US\$5.85 in 2008 respectively to approximately US\$6.51 and approximately US\$4.74 in 2015 respectively, according to DisplaySearch. Set forth below is the average selling price of touch modules and sensors.

### Average selling price of touch modules and sensors



Source: DisplaySearch

## **INDUSTRY OVERVIEW**

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Our Directors believe that the touch screen market is in the growth stage of the product life cycle as evidenced by, among others, reducing costs, rising sales volume and increasing public awareness.

### **Major Touch Screen Technologies**

According to DisplaySearch, there are over a dozen touch screen technologies, which generally fall into ten categories, namely, resistive, projected capacitive, surface capacitive, infrared, optical (image sensor) touch, acoustic wave, digitiser, in-cell, combo (projected capacitive-cum-digitiser) and others.

At present, the dominant technology for touch screen is resistive technology according to DisplaySearch. Compared with others, resistive technology offers excellent touch resolution and is of comparatively lower cost. Nonetheless, the transmissivity and durability of resistive technology is not as good as capacitive technologies. Moreover, multi-touch is not typically applied in resistive technology but can be applied in projected capacitive, infrared, optical imaging, combo and in-cell technologies. Although the majority of touch screen suppliers manufacture resistive type touch screens, more and more suppliers started to produce projected capacitive touch screen in 2008.

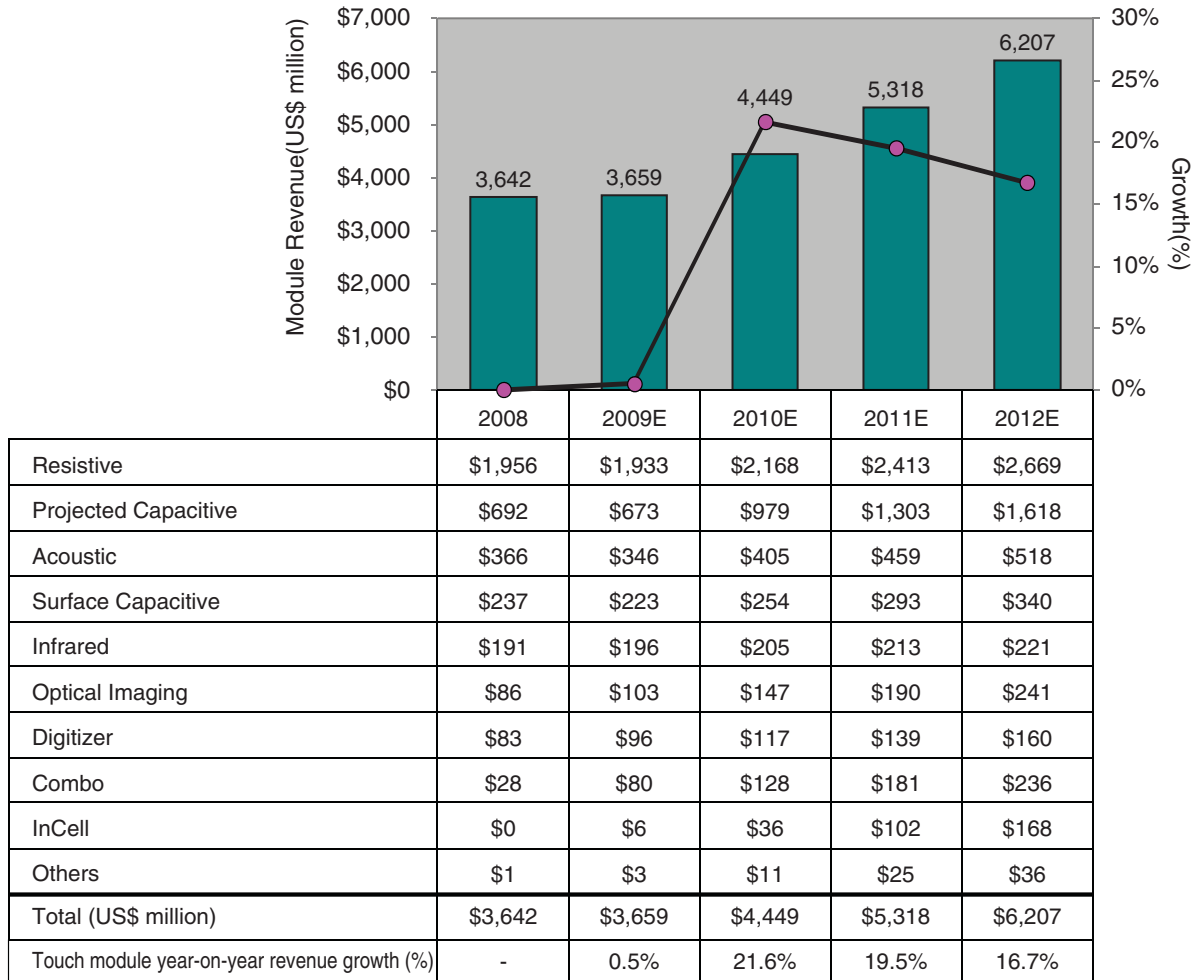
Given the many competing touch technologies including new solutions being commercialised, the choice of technology is highly dependent on applications and/or size requirements. According to DisplaySearch, the touch screen market is expected to be driven by (i) the reduction in costs of labour, related components and materials, (ii) the availability of new user interfaces that utilise touch technology, particularly the multi-touch technology, (iii) innovation for touch panel technology, materials, and adjunct technologies, and (iv) improvements in software and hardware which promote the use of touch technology such as Window 7 and multi-touch.



## INDUSTRY OVERVIEW

In terms of revenue, resistive technology is the most popular with 2008 revenue amounting to approximately US\$1,956 million. Set forth below is the revenue trends for the ten major technologies for touch screen for 2008 and the estimate by DisplaySearch for 2009 to 2012.

**Revenue trends for the ten major technologies for touch screen**

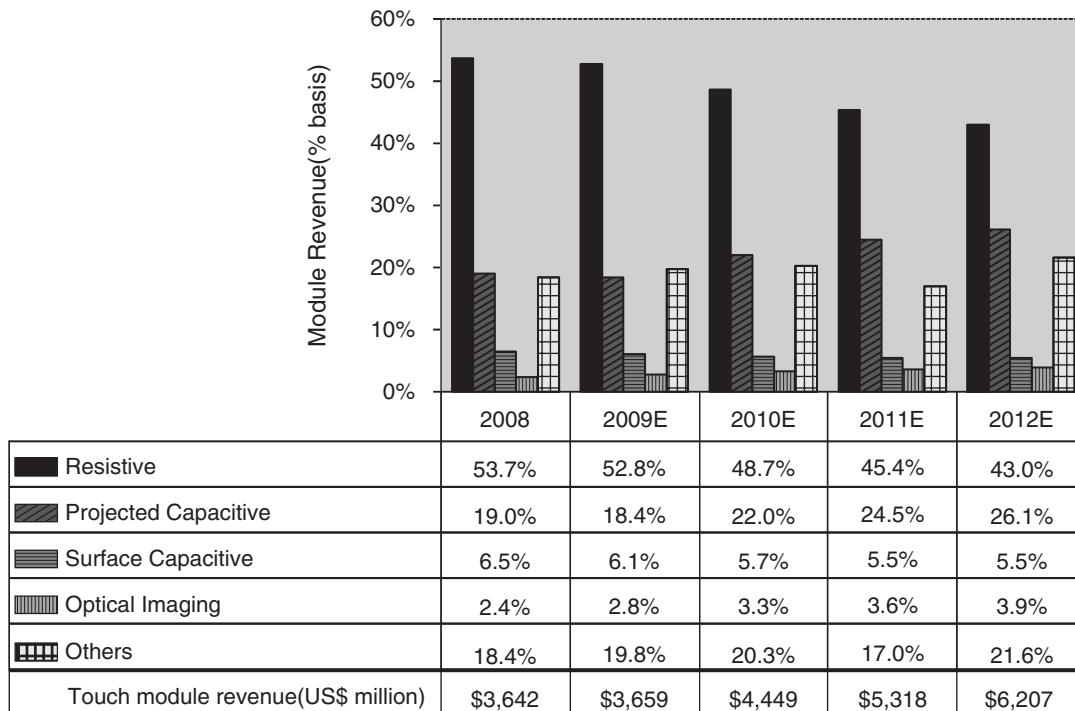


Source: DisplaySearch

## INDUSTRY OVERVIEW

In terms of revenue, resistive type of touch screen had a share of approximately 53.7% in 2008 and its market share is expected to show a declining trend from 2009 to 2012 accordingly to DisplaySearch. Nonetheless, projected capacitive technology is expected to take up the market in the next few years. Set forth below is the relative share of the ten major technologies for touch screen in terms of revenue for 2008 and the estimate by DisplaySearch for 2009 to 2012.

### Relative share of the ten major technologies for touch screen in terms of revenue



Source: DisplaySearch

### Major Applications of Touch Screen

Touch technology is growing across many different applications including consumer electronics, commercial products and industrial equipment.

According to DisplaySearch, mobile phone is expected to continue to be the leading application among various applications, accounting for approximately 60.8% and 32.9% of aggregate module shipment and revenues, respectively, during 2009-2015. The next three largest specific applications in terms of shipment in order are portable game players, PMP/ MP3 players, and portable navigation devices. Set forth below is the forecasted CAGR and relative share in terms of major applications in respect of (i) unit shipment of touch modules; (ii) touch module revenue and (iii) touch sensor revenue for the period of 2009 to 2015 according to DisplaySearch.

## INDUSTRY OVERVIEW

### Estimated CAGR and relative share in terms of major applications for 2009 to 2015

Application	Unit shipment		Module revenue		Sensor revenue	
	CAGR	Share	CAGR	Share	CAGR	Share
Mobile Phone	23.9%	60.8%	23.0%	32.9%	22.5%	28.6%
Game – Portable	9.6%	7.1%	7.0%	3.5%	7.2%	4.3%
PMP/MP3 Player	20.7%	4.5%	16.1%	4.6%	16.6%	2.9%
Portable Navigation Device	3.2%	3.6%	0.4%	1.7%	0.4%	2.0%
ATM/Financial	5.7%	1.1%	4.2%	4.1%	3.8%	4.5%
Medical	10.2%	1.1%	11.0%	3.3%	10.8%	3.7%
POI and Self Check-in	14.0%	1.0%	15.7%	5.8%	15.5%	6.3%
Notebook PC	23.9%	0.8%	24.9%	6.9%	24.6%	7.6%
Mini-note/Ultra-mobile PC	30.3%	0.5%	43.5%	2.0%	42.3%	2.1%

*Source: DisplaySearch*

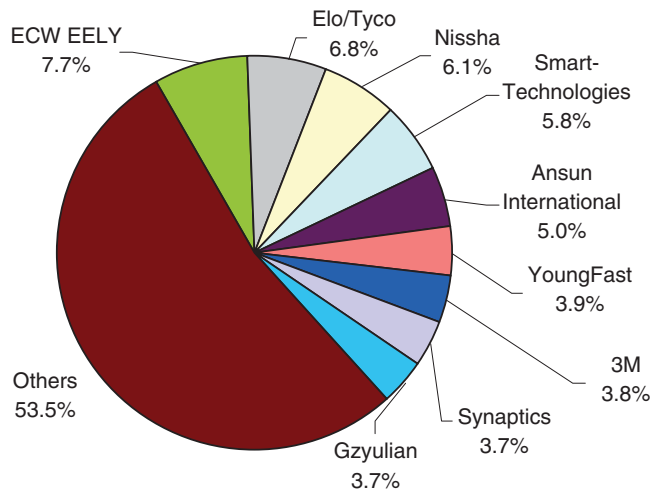
Currently, touch screen phones are roughly split between two types of technologies: capacitive and resistive. Resistive technology has existed for over 15 years and has initially been deployed for the first round of touch screen phones due to its relatively low cost and simple implementation. However, as mobile handset OEMs deliver multimedia capabilities (e.g. high-definition video, full Internet browsing, etc.), they will require more sophisticated interaction, such as 3D graphical user interfaces. Resistive technology offers limited gestures and multimedia support. On the contrary, capacitive technology, whose cost curve is expected to decline to comparable levels as resistive technology over time, offers the following advantages over resistive technology for multimedia smartphones including (i) flexible and light-weight; (ii) better clarity; (iii) more durable because users do not physically compress the screen to see a touch; and (iv) utilised in a variety of applications including point-of-sale systems, industrial controls, public information kiosks, etc. In this regard, first-movers and dominant suppliers of capacitive touch screen technology are expected to grow along with the overall market.

### **Fragmented Market for Touch Screen**

The touch screen industry is fragmented with well over 100 sensor and module suppliers. Overall, shipment leaders are those who typically focus on resistive technology. Nonetheless, revenue differs greatly from shipment share due to the relative cost among resistive and other more expensive technologies. Set forth below is the market share of major suppliers of touch modules in terms of revenue in 2008.

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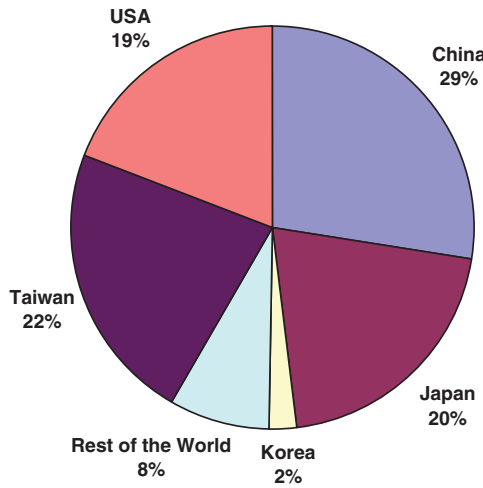
**Market share of major suppliers of touch modules in terms of revenue in 2008**



Source: DisplaySearch

In terms of revenue by region in 2008, China ranks first with revenue amounting to approximately US\$933 million due to larger sizes and more expensive touch technologies. Taiwan and Japan rank second and third respectively with revenue amounting to approximately US\$758 million and US\$691 million respectively. Set forth below is the revenue of touch modules by region in 2008.

**Revenue of touch modules by region in 2008**



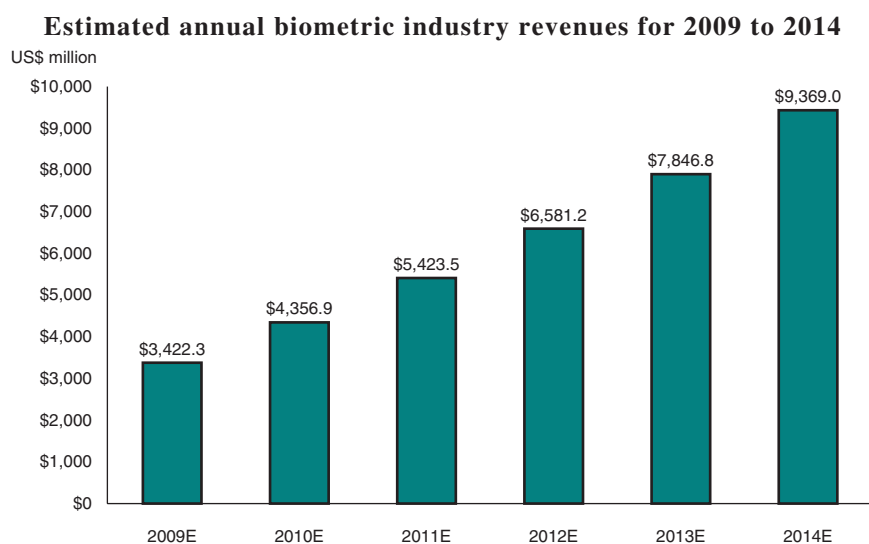
Source: DisplaySearch

## INDUSTRY OVERVIEW

### FINGERPRINT DEVICE MARKET

#### Overview

Biometrics refers to methods for uniquely recognising humans based upon one or more intrinsic physical or behavioural traits. In information technology, in particular, biometrics is used as a form of identity access management and access control. Set forth below is the annual biometric industry revenues estimated by IBG for 2009 to 2014.



Source: IBG MATERIAL. “Forecasted annual biometric industry revenues for 2009 to 2014”

Among various biometric technologies, fingerprint deployments are the dominant segment. Fingerprint technology is used to verify availability for public services, access computers and mobile devices, enter restricted areas, authorise transactions, and confirm identity in interactions with authorities. Most fingerprint deployments provide one-to-one verification of a claimed identity. For large-scale identification applications, in which a fingerprint is searched against a database of thousands or millions of fingerprints, are classified as automated fingerprint identification systems. Set forth below is the annual revenues by various biometric technologies estimated by IBG for 2009 to 2014.

#### Estimated annual revenues by various biometric technologies for 2009 to 2014

	2009E	2010E	2011E	2012E	2013E	2014E
	(US\$ million)					
AFIS/Live-Scan	1,309.1	1,489.9	1,816.5	2,154.4	2,525.9	2,965.8
Fingerprint	971.0	1,380.9	1,740.1	2,064.1	2,422.9	2,827.2
Face Recognition	390.0	510.8	675.4	848.5	1,097.3	1,417.8
Middleware	275.0	327.7	413.8	525.2	625.2	732.6
Iris Recognition	174.4	287.8	360.8	480.5	578.3	730.3
Voice Recognition	103.8	109.3	113.5	136.3	167.5	189.7
Vein Recognition	83.0	102.1	132.2	172.2	199.5	235.7
Hand Geometry	62.0	62.8	63.7	68.2	76.0	85.0
Other Modalities	54.0	85.6	107.5	131.8	154.2	184.9
<b>Annual Total</b>	<b><u>3,422.3</u></b>	<b><u>4,356.9</u></b>	<b><u>5,423.5</u></b>	<b><u>6,581.2</u></b>	<b><u>7,846.8</u></b>	<b><u>9,369.0</u></b>

Source: IBG MATERIAL, “Forecasted annual revenues by various biometric technologies for 2009 to 2014”

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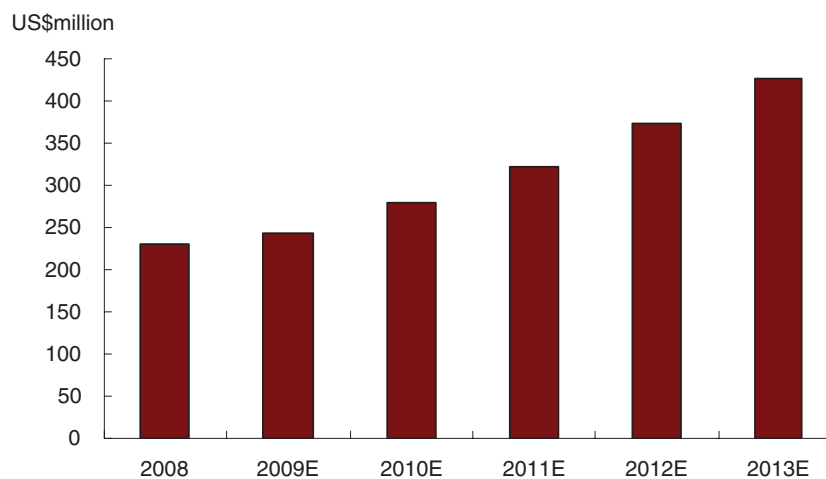
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### **Overview of Fingerprint Sensor Market**

A fingerprint sensor is an electronic device used to capture a digital image of the fingerprint pattern. The captured image is called a live scan. The live scan is digitally processed to create a biometric template (a set of extracted features) which is stored and used for matching. The major fingerprint sensor types are (i) optical sensor which captures a visual image of the fingerprint by using a light source, a prism and a detector platen; (ii) silicon sensor which converts physical fingerprint information into electrical signals by means of capacitive, thermal, electric field (also known as radio frequency or RF) or pressure (piezoelectric); and (iii) ultrasound sensor which uses acoustic waves to measure the density of a finger image pattern.

With the improvements in technology, fingerprint sensors have become more convenient in applications such as safes or notebooks which use fingerprint sensors to replace passwords, pin numbers or physical keys. The price erosion and demand for enhanced security level also fuel the demand for fingerprint sensors. IMS Research estimated the sales of fingerprint sensors to grow from approximately US\$228.6 million in 2008 to approximately US\$426 million by 2013, representing a CAGR of approximately 13.3% from 2008 to 2013. In particular, revenues for fingerprint sensors used in notebooks are expected to double from approximately US\$126 million in 2008 to approximately US\$235.7 million in 2013 according to IMS Research. Set forth below is the global sales value of fingerprint sensors for 2008, and the estimate for 2009 to 2013 according to IMS Research.

**Global sales value of fingerprint sensors**



*Source: IMS Research*

Our Directors believe that fingerprint sensors for portable laptop computers and handheld computers are in the growth stage of the product life cycle as evidenced by, among others, steady expansion through technology improvements, rising user awareness, declining price and increasing sales volume. Our Directors are of the view that our Group is ready to capitalise on the promising business prospects of the fingerprint sensor market.

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The dominant fingerprint sensor technology is the silicon type with approximately 76.7% market share in 2008, according to IMS Research. With an estimated CAGR in sales of approximately 14.8% from US\$175.3 million in 2008 to US\$349.1 million in 2013, silicon sensors are expected to remain the dominant fingerprint sensor over the next few years.

### **Fingerprint Sensor Application**

According to IMS Research, fingerprint sensor application can be classified into three segments, namely (i) physical access sector (access control, door locks, safes & vaults, time & attendance and others); (ii) logical access sector (mobile phones, notebooks, PC peripherals, USB memory and others); and (iii) public sector uses. IMS Research estimates that the public sector accounted for only 2.4% of the market (amounting to approximately US\$5.4 million) in 2008 and that growth will be the lowest among these three segments over the next few years.

There are two major applications of logical access for fingerprint sensors including mobile phones and notebooks. According to IMS Research, the notebook sector was estimated to account for approximately US\$126.8 million, or 71.3% of total logical access application revenue in 2008 and will remain the dominant application over the next few years with an estimated CAGR in sales of 13.2% from 2008 to US\$235.7 million in 2013.

According to IMS Research, access control was estimated to account for approximately 70.5% of total physical access fingerprint sensor application revenue in 2008 and will remain the dominant application through 2013.

## **WIRELESS CHARGING MARKET**

### **Overview**

There are four key types of wireless charging, namely (i) conductive technology which needs electrical contacts; (ii) inductive coupling which allows short-range power transmission yet requires proper shielding to control radio frequency interference; (iii) near-field magnetic resonance which allows short to medium range power transmission but no product has yet been commercialised; (iv) far-field magnetic resonance which allows long range power transmission but incurs tremendous energy loss through radiation with safety concerns such that, similar to the near-field magnetic resonance type, no product has yet been commercialised. Among the aforesaid four key types of technology, inductive coupling technology and conductive technology offer the highest efficiency of approximately 70% (as compared to 30% to 40% for near-field magnetic resonance and even lower for far-field magnetic resonance).

According to the iSuppli WC Report, at present, inductive coupling technology is the most widely adopted technology. Although there is no standard formed, all commercial products based on inductive coupling are based on companies' proprietary technologies. iSuppli WC Report also states that 2010 is expected to mark the real birth of wireless charging with meaningful shipment volume. For consumer electronics, wireless charging will start as accessories or options for customers. Manufacturers need to fully integrate wireless charging into the PCB design and the most efficient and effective way to drive adoption is having a standard to ensure interoperability.

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## INDUSTRY OVERVIEW

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Furthermore, Microsoft Corporation has also filed a patent with the U.S. Patent and Trademark Office for wireless charging devices in August 2008. We believe this indicates the growth potentials of the wireless charging market and a recognition of its importance by the international computer and consumer electronics brands.

### Application of Wireless Charging Devices

Wireless charging technology is mainly applied for consumer electronics including mobile phones, PMP/MP3 players, digital still cameras and portable computers. According to the iSuppli WC Report, mobile phone is expected to be most readily enabled with wireless charging technology. Set forth below is the level of penetration of wireless charging technology into different applications of consumer electronics from 2010 (when shipment is expected to become meaningful for wireless charging devices) to 2013, as estimated by iSuppli Corporation.

#### Wireless charging penetration by application from 2010 to 2013

	2010E (million units)	2011E (million units)	2012E (million units)	2013E (million units)
Mobile phones	9.2	57.2	177.3	293.0
PMP/MP3 players	0.5	2.2	6.9	19.5
Digital still cameras	0.1	0.7	2.2	4.0
Mobile PCs	0.2	0.8	2.8	7.1
<b>Total</b>	<b>10.0</b>	<b>60.8</b>	<b>189.2</b>	<b>323.6</b>

*Source: iSuppli WC Report*

Mobile phone will contribute a dominant portion of wireless charging enabled devices among the four applications due to its high volume and OEMs’ participation to enhance market awareness. Although PMP/MP3 player market is saturating, this segment has more unified form factor and similar power consumption profile encourages accessory manufacturers to design products for this spectrum.



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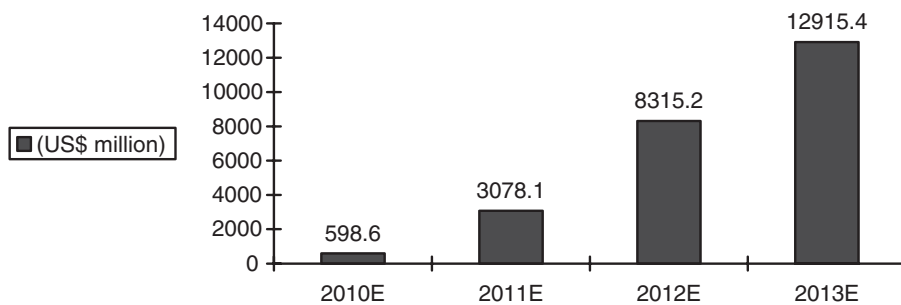
## INDUSTRY OVERVIEW

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### Size for Wireless Charging Market

The combined revenue of product specific solutions and after market solutions shows a CAGR of approximately 178.4% from approximately US\$598.6 million in 2010 to approximately US\$12,915.4 million in 2013. Wireless charging has tremendous opportunity to get into various portal consumer products once there is an industry standard. Set forth below is the total addressable size for the wireless charging market from 2010 (when shipment is expected to become meaningful for wireless charging devices) to 2013, as estimated by iSuppli Corporation.

**Total addressable market size for the wireless charging from 2010 to 2013**



*Source: iSuppli WC Report*

### PLASMA LIGHTING MARKET

Plasma lamps are a relatively new (as of 2009) type of highly efficient electrodeless lamp energised by radio frequency (RF) power. The first practical plasma lamps were the sulphur lamps which suffered from a number of practical problems yet have gradually been overcome by manufacturers such as Ceravision and Luxim, and high-efficiency plasma (HEP) lamps have been introduced to the general lighting market.

High-efficiency plasma lighting is the class of plasma lamps that have system efficiencies of 90 lumens per watt or more. Lamps in this class are potentially the most energy-efficient light source for outdoor, commercial and industrial lighting. This is due not only to their high system efficiency but also to the small light source they present enabling very high luminaire efficiency.

Many modern plasma lamps have very small light sources – far smaller than high-intensity discharge (HID) bulbs or fluorescent tubes – leading to much higher luminaire efficiencies also. While HID lamps and fixtures can save 75% to 90% of lighting energy when they replace incandescent lamps and fixtures, plasma lamps have even higher luminaire efficiencies than HID lamps.

Recent development of solid-state high-intensity lighting technology not only enables efficiency, but also long stable life, full spectrum intensity which can be digitally controlled and is user-friendly. It is therefore applicable in commercial, industrial, infrastructure, projection display, front projector applications (such as HDTV, video wall and home theatre), medical, microscopy, inspection, entertainment, etc. Plasma lighting can also be applied as street lamp. The road light market of mainland China reached 28 million street lamps in 2009 with about 1.5 million to 2 million street lamps will be installed or replaced.

## **REGULATIONS**

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### **REGULATION**

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group’s operation and business.

#### **Establishment, operation and management of a wholly foreign-owned enterprise**

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (the “**Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress on 29 December 1993 and was effective as of 1 July 1994, which was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. The Company Law also applies to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of wholly foreign-owned enterprises are governed by Wholly Foreign-owned Enterprise Law of the PRC (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Foreign investors and foreign-owned enterprises that conduct any investments in the PRC must comply with the Guidance Catalogue of Industries for Foreign Investment (the “**Catalogue**”), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission on 31 October 2007. The Catalogue, as amended, became effective on 1 December 2007 and contains specific provisions that guides market access of foreign capital, which sets out in detail categories of industries that are encourages foreign investment, industries in which foreign investment is restricted and industries where foreign investment is prohibited. Any industry that is not listed in the Catalogue is a permitted industry.

#### **Taxation**

##### *Income tax*

Before the Enterprise Income Tax Law of the PRC (the “**Income Tax Law**”), which was promulgated on 16 March 2007, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (the “**Foreign-invested Enterprise and Foreign Enterprise Income Tax Law**”) which was promulgated on 9 April 1991 and effective on 1 July 1991, along with related implementation rules. Pursuant to the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. Foreign-invested enterprises that were established in Special Economic Zones, foreign enterprises which was in production or had business operations in Special Economic Zones and foreign-invested enterprises of a production nature in Economic and Technological Development Zones had their income tax levied at the reduced rate of 15%. The income tax on foreign-invested enterprises engaged in production and was established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was

## **REGULATIONS**

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levied at the reduced rate of 24%. Any foreign-invested enterprise engaged in production and was scheduled to operate for a period of not less than ten years is, from the year beginning to make profit, exempted from income tax in the first and second years and allowed a 50% reduction in the third to fifth years of operation.

After the promulgation of the Income Tax Law on 16 March 2007, the income tax for both domestic and foreign-invested enterprises were both set at the same rate of 25%, effective as of 1 January 2008. However, there was a transition period applied to enterprises that received preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income rate lower than 25% to enjoy the lower rate and gradually transfer to the new tax rate after the effective date of the Income Tax Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

### ***Value-added tax***

Pursuant to the Provisional Regulations on Value-added Tax of the PRC effective from 1 January 1994 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product nature.

### **Environmental protection**

According to the Environmental Protection Law of the PRC (the “**Environmental Protection Law**”), which was promulgated and effective as of 26 December 1989:

- environmental assessment must be conducted on a construction project and such environmental assessment report must be approved by the environmental authority before the construction project could be approved;
- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- in a construction project, environmental pollution prevention and treatment facilities must be designed, constructed and put into operation at the same time with the principal part of the construction project;
- a construction project can only be put into operation after the related environmental pollution prevention and treatment facilities have been approved and accepted by the environmental protection authorities;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefore.

## **REGULATIONS**

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Violation of the Environmental Protection Law may result in fines, suspension of operation, close-down or even criminal liabilities.

### **Foreign currency exchange and dividend distribution**

#### *Foreign currency exchange*

The principal regulations governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (the “**Foreign Exchange Administration Rules**”), promulgated by the State Council on 29 January 1996 and became effective on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside China are subject to limitations and require approvals from SAFE.

#### *Dividend distribution*

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include Wholly Foreign-owned Enterprise Law and The Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 April 1986 and amended on 31 October 2000 and promulgated on 12 December 1990 and amended on 12 April 2001, respectively.

Under these regulations, wholly foreign-owned enterprises in China can only pay dividends from accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds until the accumulated reserve amounts to 50% of its registered capital. Such enterprises are also required to set aside funds for the employee bonus and welfare fund from their after-tax profits each year at percentages determined at their sole discretion. These reserves are not distributable as cash dividends.

#### *Foreign Exchange Registration*

According to the Notice on Issues Relating to Foreign Exchange Control on Fundraising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments (the “**No. 75 Notice**”), which was promulgated on 21 October 2005 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the No. 75 Notice, resident natural persons include those individuals who have PRC citizenship or other

## **REGULATIONS**

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domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”. In accordance with the Notice of the General Affairs Department of the State Administration of Foreign Exchange on Printing and Distributing the Operating Rules for the Notice of the State Administration of Foreign Exchange on the Relevant Issues about Foreign Exchange Control over the Financing and Return Investment of Domestic Residents through Overseas Special Purpose Companies (Hui Zong Fa [2007] No. 106), which was promulgated on 29 May 2007 by SAFE, “individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests” mainly include the following (and does not matter whether he/she has a PRC statutory identification certificate or not):

- (1) individuals who have domestic permanent residence and leave their domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc.;
- (2) individuals who hold domestic-funded rights and interests in domestic enterprises; and
- (3) individuals who hold domestic-funded rights and interests in domestic enterprises which were converted into foreign-funded rights and interests with the same individual holding the aforementioned rights and interests.

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## **REGULATIONS**

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Based on the above: (i) Mr. Wong and Ms. Ching have confirmed that they are permanent residents in Hong Kong and their current residence in the PRC is a temporary one to facilitate management of their investment in the PRC; (ii) our PRC legal advisors have advised that Mr. Wong and Ms. Ching are not required to register pursuant to the No. 75 Notice.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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### **INTRODUCTION**

We incorporated our Company in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 17 July 2009.

We are a leading provider of capacitive touch pads by volume for use in notebook computers and we have been in the business of producing touch pads for over 10 years. We operate our business primarily through two of our subsidiaries, World Fair Hong Kong (through which our manufacturing arm, World Fair Heshan, is held) and Cybertouch (through which we develop our own “C-touch” brand fingerprint biometric products which we plan to commercialise).

We incorporated Shining Union on 9 July 2009 to centralise the holding and management of all our patents, trademarks, designs and domain names with respect to the business of our Group. We incorporated Up Castle on 9 July 2009 to centralise the management and operation of our R&D capabilities. For details of our corporate structure, please refer to the section headed “History, Reorganisation and Corporate Structure – Corporate Development of our Group – Our Corporate Structure” in this document.

### **OUR HISTORY**

Our business started when our first subsidiary, World Fair Hong Kong was incorporated in December 1996 for engaging in trading business. Through World Fair Hong Kong, our founders Mr. Wong and Ms. Ching, commenced their business in touch products with Synaptics in 1998.

As Mr. Wong and Ms. Ching familiarised with the touch pad product design and manufacturing processes, they decided to set up a manufacturing plant in Hong Kong in around 2002 to produce touch pad products as a contract manufacturer for Synaptics. With increasing orders, the production capacity of our Hong Kong plant was no longer able to cope with the demand and hence we relocated our manufacturing plant to Heshan, Jiangmen in southern China.

In 2008, with the foresight to diversify and expand our business further, we started to establish our in-house R&D capabilities. In 2008, building on our manufacturing business of capacitive touch products mainly as a manufacturing services provider, capturing the change in technology and market expectations, with the support of our R&D team, we further developed and diversified into other markets which we believe to possess significant growth potentials, beginning with the commercialisation of fingerprint biometric devices. We are also a manufacturing services provider in this product segment by sourcing fingerprint sensors externally and manufacturing fingerprint biometric devices for use in notebook computers. We provide engineering design support in the course of production to our customers. In addition, we have designed and developed a series of fingerprint biometric products which we plan to commercialise under our own brand “C-touch”.

With the support of our R&D team and our customers, we have further diversified into the production of wireless charging devices and plasma lighting products. We are committed to distinguishing ourselves from a traditional manufacturing services provider and we have invested resources into research and development for these new products. For wireless charging devices, we co-developed wireless charging devices with our customer by providing battery design and engineering support. For plasma lighting products, we provided manufacturing services to our customer for plasma light projectors and also developed and introduced plasma street lamps to another customer during the Track Record Period.

Although our business relationship with non-touch product customers is relatively short, being less than one year on average, we aim to continue our ongoing business relationship with them in the future.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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In December 2009, we were awarded the Innovation Knowledge Enterprise Award organised by the Hong Kong Productivity Council for successful implementation of intellectual property management.

We have received numerous awards and accreditations. For further details, please refer to the section headed “Business – Awards and Accreditations” in this document. In recognition of our quality management and environmental management systems, we have also obtained various certifications. For further details, please refer to the section headed “Business – Quality Control” in this document.

### **CORPORATE DEVELOPMENT OF OUR GROUP**

The following is a brief corporate history of the establishment and changes in the shareholding of our Company and other members of our Group.

#### **Our Company**

- (a) On 17 July 2009, our Company was incorporated in the Cayman Islands as an investment-holding company with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each.
- (b) On 17 July 2009, one Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber, and 7,497 Shares and 2,502 Shares were allotted and issued to Mr. Wong and Ms. Ching respectively on the same date.
- (c) On 17 July 2009, Codan Trust Company (Cayman) Limited transferred one Share to Mr. Wong and upon such transfer, Mr. Wong and Ms. Ching became the shareholders of our Company holding 74.98% and 25.02% therein respectively.
- (d) On 27 November 2009, pursuant to the Reorganisation, our Company allotted and issued 1,558,363,838, 541,605,050 and 52,521,112 Shares credited as fully paid to Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) respectively.
- (e) On 1 December 2009, Mr. Wong transferred 1,414,871,336 and Ms. Ching transferred 512,907,491 Shares into The KW Trust.

#### **World Fair Hong Kong**

- (a) World Fair Hong Kong was incorporated in Hong Kong on 27 December 1996 as a limited liability company. On the day of its establishment, one share was issued to each of Corpsec Limited and Corporation Formation Limited as subscribers. Corpsec Limited and Corporation Formation Limited are Independent Third Parties.
- (b) On 18 January 1997, Corpsec Limited transferred one share in World Fair Hong Kong to Ms. Chan Ai Lee, Jenny, and Corporation Formation Limited transferred one share in World Fair Hong Kong to Mr. Ho Ho Yin. Both Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin were nominees of Mr. Wong.
- (c) On 22 March 1997, World Fair Hong Kong allotted and issued 3,999 and 5,999 fully paid shares of HK\$1.00 each to Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin respectively. Both Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin were nominees of Mr. Wong.



## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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- (d) On 15 January 2001, the authorised share capital of World Fair Hong Kong was increased from HK\$10,000 to HK\$100,000 by the creation of 90,000 new shares of HK\$1.00 each. On 23 January 2001, World Fair Hong Kong allotted and issued 90,000 fully paid shares of HK\$1.00 each to Mr. Ho Ho Yin, a nominee of Mr. Wong.
- (e) On 27 August 2001, World Fair Tech (formerly known as China Netcom Hong Kong Limited) acquired 4,000 shares and 95,000 shares in World Fair Hong Kong at par from Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin respectively, accounting for a total of 99% shareholding in World Fair Hong Kong, whereas Professional Management Services Company Limited acquired the remaining 1,000 shares, accounting for 1% shareholding in World Fair Hong Kong at par, from Mr. Ho Ho Yin. Professional Management Services Company Limited was a nominee of Mr. Wong.
- (f) On 13 July 2002, Mr. Wong acquired the remaining 1% shareholding in World Fair Hong Kong from Professional Management Services Company Limited.
- (g) On 30 September 2008, in order to recognise the contributions of the Awarded Employees to our Group, we adopted the Share Incentive Scheme pursuant to which we agreed to transfer from World Fair Tech, in aggregate, 2.83% of the total issued share capital in World Fair Hong Kong to the Awarded Employees for a consideration of HK\$1.00 from each of the Awarded Employees. For details of the Share Incentive Scheme, please refer to the section headed “Statutory and General Information – Share Schemes – Share Incentive Scheme” in Appendix VI in this document.
- (h) For details of Charming Lion’s acquisition of 100% of the issued share capital in World Fair Hong Kong, please refer to the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this document.

Mr. Wong appointed Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin as his nominees in respect of the initial establishment of World Fair Hong Kong. The nominees arrangement was necessary since Mr. Wong had been fully occupied with his other substantive work at the relevant time for the initial establishment of World Fair Hong Kong. To facilitate the establishment of World Fair Hong Kong Ms. Chan Ai Lee, Jenny and Mr. Ho Ho Yin were appointed as nominees of Mr. Wong, both of whom were only responsible for the administration work for the set up of World Fair Hong Kong and had not dealt with any substantive business therein. Both Ms. Chan Ai Lee and Mr. Ho Ho Yin are Independent Third Parties.

### **Cybertouch**

- (a) Cybertouch was incorporated in Hong Kong on 13 October 2000 as a limited liability company. On the day of its establishment, 9,999 shares and 1 share were issued to World Fair Hong Kong and Mr. Ho Ho Yin respectively as subscribers.
- (b) On 20 July 2001, Mr. Ho Ho Yin transferred one share in Cybertouch to Professional Management Services Company Limited at par. Professional Management Services Company Limited was a nominee of World Fair Hong Kong.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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- (c) On 22 August 2002, Professional Management Services Company Limited transferred one share in Cybertouch to World Fair Hong Kong and on the same day, World Fair Hong Kong transferred that one share in Cybertouch to Mr. Wong at par. For details of World Fair Hong Kong’s acquisition of 0.01% of the total issued share capital in Cybertouch from Mr. Wong and Ever Firm’s acquisition of the then 100% of the total issued share capital in Cybertouch from World Fair Hong Kong, please refer to the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this document.

### **World Fair Heshan**

World Fair Heshan was incorporated as a wholly foreign-owned enterprise by World Fair Hong Kong on 18 November 2004 in Jiangmen, the PRC, with a registered capital of US\$2,000,000. World Fair Heshan’s authorised business scope includes manufacturing digital audio equipment, digital projection equipment, automatic data processors, digital cameras, precise online measurement equipment, new printing devices, high-end routers, telephones, network switches, broadband access communication system equipment, light source components, plasma light source products, new electronics components, PCBs, data transmission equipment, satellite receiver apparatus, security equipment, green batteries, battery chargers and the components.

On 7 June 2005, the registered capital of World Fair Heshan was increased from US\$2,000,000 to US\$15,000,000.

On 17 January 2006, the registered capital of World Fair Heshan was increased from US\$15,000,000 to US\$17,000,000.

On 12 June 2006, the registered capital of World Fair Heshan was increased from US\$17,000,000 to US\$19,000,000.

On 26 September 2006, the registered capital of World Fair Heshan was increased from US\$19,000,000 to US\$25,250,000.

On 27 May 2008, the registered capital of World Fair Heshan was increased from US\$25,250,000 to US\$37,250,000.

On 9 July 2009, the registered capital of World Fair Heshan was increased from US\$37,250,000 to US\$57,250,000 of which US\$36,901,805.40 have been paid by 30 September 2009, and the remaining amount of US\$20,348,194.60 to be paid in full on or before 8 July 2011.

Save as disclosed above, there has been no other change in the equity holding structure of World Fair Heshan since its establishment.

### **The KW Trust**

The KW Trust was established as a discretionary trust by Mr. Wong as settlor and the Trustee as trustee on 1 December 2009. The beneficiaries of The KW Trust include family members of Mr. Wong and Ms. Ching.

Soar Plan was incorporated in the BVI with limited liability on 6 November 2009, the entire issued share capital of which is held by Swan Hills which is in turn ultimately held by the Trustee as the trustee of The KW Trust.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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### **REORGANISATION**

The companies comprising our Group underwent the Reorganisation to rationalise our corporate structure [●], and as a result, our Company became the holding company of our Group. The Reorganisation involved the following steps:

- (a) On 17 July 2009, our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each;
- (b) Success Charm, Charming Lion, Cherry Light, Ever Firm and Silkray were established in May 2009 and World Design was established in November 2009 as investment holding companies.
- (c) On 9 July 2009, Shining Union was established to centralise the management and holding of all our patents, trademarks, designs and domain names.
- (d) Up Castle was established on 9 July 2009 to centralise the management and operation of our R&D capabilities.
- (e) On 9 November 2009, World Fair Hong Kong acquired 0.01% of the total issued share capital in Cybertouch from Mr. Wong for a consideration of HK\$1.00. After the acquisition, Cybertouch was wholly-owned by World Fair Hong Kong.
- (f) On 13 November 2009, Ever Firm acquired 100% of the total issued share capital in Cybertouch from World Fair Hong Kong for a consideration of HK\$10,000. After the acquisition, Cybertouch was wholly-owned by Ever Firm.
- (g) On 27 November 2009, Charming Lion acquired a total of 97.17% of the total issued share capital in World Fair Hong Kong from World Fair Tech and Mr. Wong by the allotment and issue of 20,305,275 and 6,682,967 shares in the share capital of Success Charm, credited as fully paid, to Mr. Wong and Ms. Ching respectively.
- (h) On 27 November 2009, Charming Lion acquired a total of 2.83% of the total issued share capital in World Fair Hong Kong from the Awarded Employees by the allotment and issue of, in aggregate, 786,012 shares in the share capital of Success Charm, credited as fully paid, to the Awarded Employees. After the acquisition, Charming Lion became the sole shareholder holding the entire issued share capital of World Fair Hong Kong.
- (i) On 27 November 2009, our Company acquired 100% of the total issued share capital in Success Charm from Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) by the allotment and issue of 1,558,363,838, 541,605,050 and 52,521,112 Shares, credited as fully paid, to Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching), respectively, by our Company. After the allotment, Success Charm was wholly-owned by our Company and our Company was owned by Mr. Wong as to approximately 72.4%, by Ms. Ching as to approximately 25.16% and by the Awarded Employees (excluding Ms. Ching), as to approximately 2.44%.
- (j) On 1 December 2009, Mr. Wong transferred 1,414,871,336 Shares and Ms. Ching transferred 512,907,491 Shares into The KW Trust.
- (k) On 18 December 2009, Cyber Energy was established to centralise the management and operation of our plasma lighting business.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

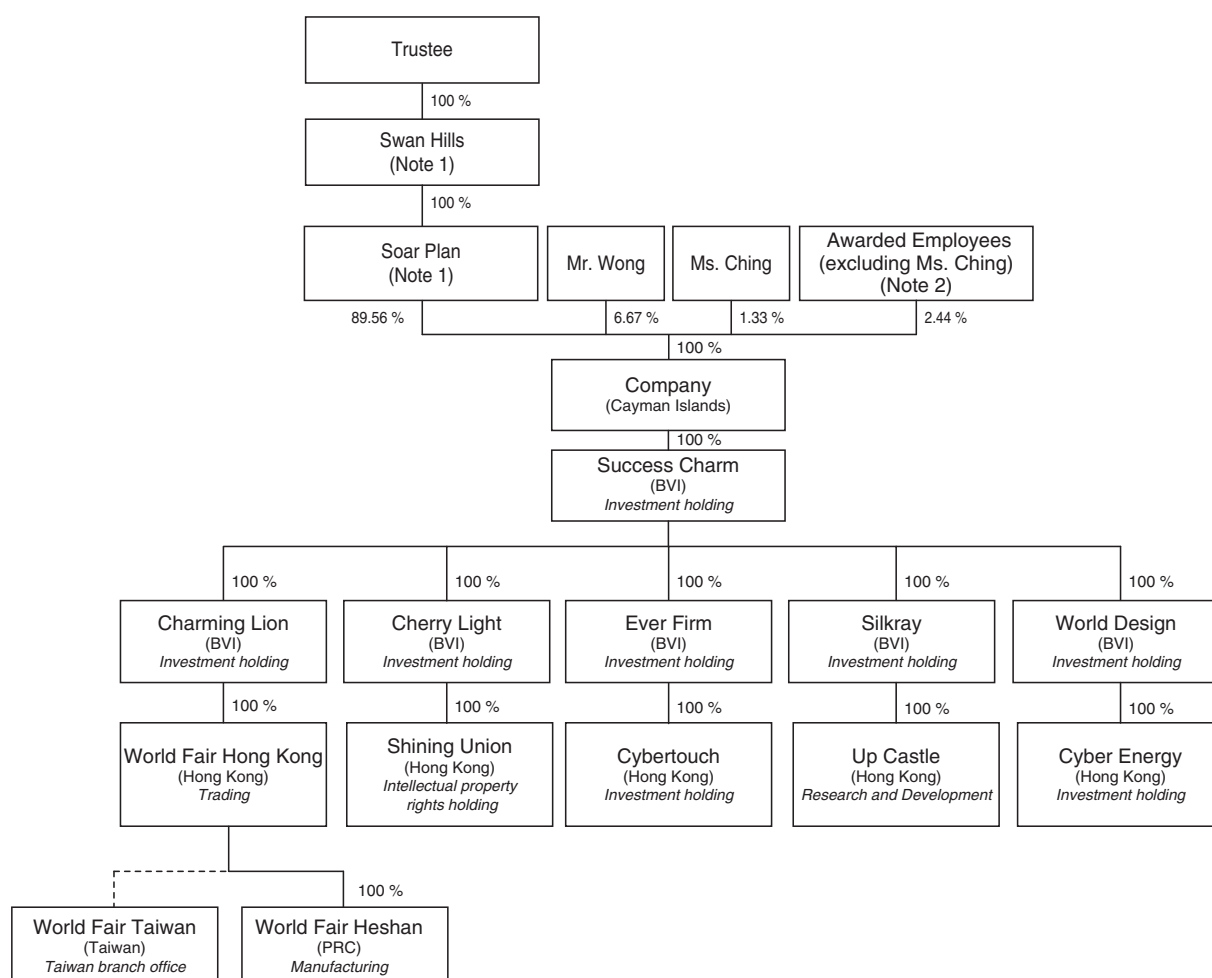
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- (l) On 28 November 2009, World Fair Hong Kong entered into a deed of assignment of trademarks and trademark applications with Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (m) On 28 November 2009, Cybertouch entered into a deed of assignment of trademarks and trademark applications with Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from Cybertouch to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (n) On 28 November 2009, Mr. Wong entered into a deed of assignment of patents and patent applications with Shining Union with respect to the transfer of the patents and patent applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per patent or patent application;
- (o) On 28 November 2009, Mr. Wong entered into a deed of assignment of designs and design applications with Shining Union with respect to the transfer of the designs and design applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per design or design application;
- (p) On 28 November 2009, World Fair Hong Kong entered into a deed of assignment of domain names with Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per domain name; and
- (q) On 28 November 2009, World Fair Heshan entered into a deed of assignment of domain names with Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Heshan to Shining Union at a consideration of HK\$100 per domain name.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group after the Reorganisation:



Notes:

1. The entire issued share capital of Soar Plan is held by Swan Hills which is in turn ultimately held by the Trustee (through two nominee companies) as the trustee of The KW Trust. The KW Trust is a discretionary trust established by Mr. Wong as settlor and the Trustee as trustee on 1 December 2009. The beneficiaries of The KW Trust include family members of Mr. Wong and Ms. Ching.
2. These Shares were granted under the Share Incentive Scheme. For details of the Share Incentive Scheme, please refer to the section headed “Statutory and General Information – Share Schemes – Share Incentive Scheme” in Appendix VI in this document.

## **BUSINESS OVERVIEW**

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### **OVERVIEW**

We are a leading provider of capacitive touch pads by volume for use in notebook computers. Touch pad was our core product and revenue driver during the Track Record Period. We also produced touch screens and multi-media buttons, which may be used in multi-media smart phones, portable media players, handheld messaging and personal digital assistant devices and peripheral computer equipment.

During the Track Record Period, we have focused on touch pad manufacturing mainly as a manufacturing services provider, with value-adding know-how mainly in respect of engineering design and assembly. Our major customer of capacitive touch products, Synaptics, is a supplier to ODMs/OEMs of notebook computers and consumer electronics.

In addition to the manufacturing of touch products, we have, as a natural expansion of our SMT/COB production capability into markets which we believe to possess significant growth potentials, diversified into the development of non-touch products, beginning with the commercialisation of fingerprint biometric devices in July 2008. We are also a manufacturing services provider in this product segment by sourcing fingerprint sensors externally and manufacturing fingerprint biometric devices for use in notebook computers. We provide engineering design support in the course of production to our customers.

With the support of our R&D team and our customers, we have further diversified into the production of wireless charging devices and plasma lighting products. We are committed to distinguishing ourselves from a traditional manufacturing services provider and we have invested resources into research and development for these new products. For wireless charging devices, we co-developed the wireless charging devices with our customer by providing battery design and engineering support. For plasma lighting products, we provided manufacturing services to our customer for plasma light projectors and also developed and introduced plasma street lamps to another customer during the Track Record Period.

Although our business relationship with non-touch product customers is relatively short, being less than one year on average, we aim to continue to grow our ongoing business relationship with them in the future.

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## **BUSINESS OVERVIEW**

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### *Leading provider of capacitive touch pads*

We have engaged in the touch pad business for over 10 years, during which we have provided capacitive touch pads to Synaptics, a global leader in capacitive touch pads, such that we have become one of the world’s leading capacitive touch pad suppliers for notebook computers by volume. The sales of touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9% and 79.4% of our total revenue for each of the three years ended 31 December 2009 respectively. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. The decrease in the proportion of sales to Synaptics was mainly attributable to our Group’s active efforts in diversification of product portfolio during the Track Record Period and in particular, the mass production of wireless charging devices, in the second half of the year ended 31 December 2009.



*Capacitive touch pad for notebook computers*

In line with usual industry practice for manufacturing services providers to share and utilise intellectual property rights of their customers in providing manufacturing services, we have a non-exclusive, non-transferable and royalty-free licence agreement with Synaptics, which authorises us to utilise Synaptics’ proprietary ICs, designs, drawings, specifications and software solely for the production of its touch products. Like other manufacturing services providers, we are not aware of the details, technicalities and specifications of our customer’s intellectual properties. As our production process mainly involves the assembly of ICs and other components onto the PCBs through SMT and COB processes, circuit testing for connectivity and application testing for functionality, our Directors believe that our main strength as a manufacturing services provider lies with our scalable SMT/COB manufacturing capabilities, which enable us to offer high quality products at competitive pricing.

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## **BUSINESS OVERVIEW**

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As Synaptics is our largest customer and it has accounted for a significant portion of our revenue during the Track Record Period, we have set out details of our relationship with this customer in the section headed “Relationship with Synaptics” in this document, which include:

- Background of Synaptics
- Risks faced by Synaptics
- Relationship with Synaptics
- Reliance on Synaptics – A Decreasing Trend
- Our Alternative Business Model/ Diversification and Contingency Plan



*Touch pad module for notebook and netbook computers*

We have established a long-term business relationship of more than 10 years with Synaptics, with whom we have not entered into any formal long-term supply agreement. Our practice of not having any formal long-term supply agreement with Synaptics is adopted based on the following considerations:

- (a) it is our practice to conduct sales with Synaptics based on purchase orders and rolling forecasts, which are non-binding in nature. Our Directors believe that such practice is in line with business practices of other manufacturing services providers in the electronics industry;
- (b) our business partnership with Synaptics without a long-term binding agreement offers us with the flexibility required in our operations to cater for dynamic changes in the electronics industry such as changes in customer demand and technologies; and
- (c) most of our production facilities, namely, the SMT and COB/COF lines, are standard manufacturing equipment in the electronics industry and only minor adjustments, which could be completed in a reasonably short period of time with nominal costs, would be required to accommodate other specific requirements from other customers. In addition, our production staff will only have to attend brief training sessions and can be trained up within a reasonably short period of time at nominal costs.

As disclosed in the Synaptics Annual Report, Synaptics utilises contract manufacturers for all of its production requirements and it does not have long-term agreements with any of its contract manufacturers that guarantee production capacity, prices, lead times or delivery schedules. Our Directors believe that it is in both of our Group’s and Synaptics’ interests not to enter into any formal long-term supply agreement for purpose of maintaining flexibility and in particular, Synaptics may, with this flexibility, reduce its dependence on any one source of supply.

We believe our Group and Synaptics have, during the long-term course of dealings, developed mutual reliance in terms of sales and cost effectiveness. On the one hand, our Group has attained a mass volume of production, enabling us to become a leading provider of capacitive touch pads by volume for use in notebook computers. On the other hand, our Group has remained as a key contract manufacturing services provider of Synaptics for over 10 years, the main reasons for which are, as we believe, our Group’s cost effectiveness and quality products offered to Synaptics. As the market



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## **BUSINESS OVERVIEW**

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leading vendor of touch pads, Synaptics has chosen our Group as its valued business partner for more than 10 years, which shows our Group’s importance to Synaptics and Synaptics’ reliance on our Group.

Although ODMs/OEMs of notebook computers and consumer electronics and end-users in the touch product supply chain (i.e. consumer electronics brands) are not our direct customers contractually for touch pads, in order to ensure that their specifications and expectations are met, we work closely with them and have obtained qualification certifications from a range of ODMs/OEMs and consumer electronics brands. Through such processes and audits, we have been able to establish direct relationships with them and provide touch products which satisfy their specific requirements. We believe that Synaptics may not terminate its engagement of our Group’s contract manufacturing services without first consulting its customers. Given our over 10 years’ of industry experience and our Group’s production process and quality products having satisfied design specifications and other production requirements of Synaptics’ customers, our Directors believe that it is unlikely that Synaptics’ customers would require Synaptics to cease its engagement of our Group.

### ***Fingerprint biometric devices***

We believe that there is an increasing awareness in data security protection generally as a result of which interest in biometric products and authentication devices is increasing. Accordingly, we commenced the manufacturing of fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we sold a portion of our fingerprint biometric devices. In addition, we have designed and developed a series of fingerprint biometric products, which have yet to be commercialised, under our own “C-touch” brand using fingerprint sensors sourced externally from the same customer, with the aim to provide customers with affordable and convenient devices to protect personal data against possible loss or leakage while using consumer electronics.

We commenced commercialisation of our fingerprint biometric devices in July 2008. In 2009, our Group has begun to make direct shipment of our fingerprint biometric devices to various ODMs/OEMs of notebook computers. Our revenue from the fingerprint biometric devices segment increased significantly from approximately HK\$69,000 for the year ended 31 December 2008 to HK\$42.3 million for the year ended 31 December 2009 (which constituted approximately 4.8% of our revenue in the year ended 31 December 2009).

We believe the growing consumer interest and potential for profit growth justify our continued effort in this product segment.



*Fingerprint biometric device for notebook computers*



*C-touch G3 mouse (Winner of International Forum Design Award 2009)*

## **BUSINESS OVERVIEW**

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### ***Wireless charging devices***

We produced wireless charging devices (including power transmitters and power receivers) involving the use of components supplied by our customer during the Track Record Period. We co-developed this wireless charging devices with our customer by providing battery design and engineering support.

In August 2009, we made our first shipment of wireless charging devices and for the year ended 31 December 2009, wireless charging devices accounted for approximately 11.5% of our Group's revenue. Our sales of wireless charging devices to our customer, HoMedics Group, is recurring in nature. Although we currently have only one customer for our wireless charging business, we expect the wireless charging segment to become increasingly significant to our business going forward in terms of inter alia, revenue contribution.

### ***Plasma lighting products (projectors and street lamps)***

During the Track Record Period, we provided contract manufacturing services in the assembly of plasma light projectors. We also developed and manufactured plasma street lamps.

We manufacture plasma light projectors for Luxim with the support of a non-exclusive and royalty free license. The licensed technology is designed to produce a high intensity light with high efficiency and long life.

In 2009, our major product in this business segment became plasma street lamps. We made our first shipment of plasma street lamps in November 2009 and it accounted for approximately 4.8% of our total revenue in the fourth quarter of 2009 and approximately 1.8% of our total revenue for the year ended 31 December 2009.

Although our Company has only sold plasma street lamps to one customer during the Track Record Period, our sales to such customer is expected to be recurring in nature. In addition, we have received other orders placed by another customer and have also entered into non-binding letters of intent for the sale and purchase of plasma street lamps with various potential customers since our first shipment in November 2009. We anticipate this segment of the business to enjoy a meaningful growth in the near future.

### ***Other products***

We have also offered other contract manufacturing services for a range of other products, including electrical components for drilling equipment, automotive devices and medical equipment to our customers during the Track Record Period. These products were not a main source of our revenue during the Track Record Period but it offered valuable opportunities for us to diversify our customer base and to form technology partnerships with our customers.

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## **BUSINESS OVERVIEW**

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### ***Our production facilities and quality commitment***

Our production base is in Heshan city, Jiangmen, Guangdong province in southern China, where our main production and R&D facilities are located. As at the Latest Practicable Date, we had 32 high speed SMT lines and 70 wire bonding machines for our COB/COF assembly in our production plants in Jiangmen. We own our main production plant in Heshan city which has a site area of approximately 125,000 sq.m. We also lease another production site nearby of a total area of approximately 7,800 sq.m. from an Independent Third Party.

Our production plants in Jiangmen are equipped with real-time shop floor control and traceability programmes, barcode identification and tracing systems. Upon full implementation, our i-Manufacturing programme will provide real-time inventory, cost and production status of our production. Please refer to the section headed “Business – Information Technology” in this document for details of our information technology systems and our i-Manufacturing system.

Our SMT and COB/COF lines can, with minor adjustments, be used for the production of a range of consumer electronic products for different customers, details of our production facilities and our capabilities, please refer to the section headed “Business – Production – Production facilities” in this document.

Our Group has obtained qualification certifications and passed regular audits from a range of ODM/OEMs of notebook computers and consumer electronics brands which utilise touch pads manufactured by us. The qualification process is costly and time-consuming which we believe, presents a market entry barrier for potential competing touch product manufacturers and impediment for our customers to turn to alternative manufacturing services providers.

We have also obtained accreditations including ISO 9001:2008 in respect of our quality management and ISO 14001:2004 in respect of our environmental management systems. We have received CE and FCC certifications in respect of our fingerprint segment and have also been awarded with certificates of compliance from international conformity assessment authorities. Furthermore, we have also obtained ISO accreditations for our other products.

For further details, please refer to the sections headed “Business – Awards and Accreditations” and “Business – Quality Control” in this document.

### ***Our R&D capabilities and accreditations***

We started our business as a manufacturing services provider of primarily touch pads utilising the intellectual property, underlying patents and technologies licensed from our customers. In recent years, we have progressed further into developing our own R&D capabilities and devoting additional resources in technological advancement. In the year ended 31 December 2008, our R&D team has achieved breakthroughs in developing various new fingerprint applications and standalone product designs. Such breakthroughs included the development of fingerprint mouse and keyboard, fingerprint scanner with LED indicator, USB fingerprint dongle, “Touch and Lock”, “Multi Touch Lock” and SecuButton™, the majority of which we have applied for patent registrations in Hong Kong, the PRC and the United States.

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## **BUSINESS OVERVIEW**

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Between October 2008 and April 2010, we were granted 16 patents and designs and further applied for 46 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States. We received the Innovative Enterprise Award from the Hong Kong Productivity Council in December 2009 as recognition of our successful implementation of intellectual property management. In August 2009, we have also been awarded the International Forum Design Award for our G3 fingerprint sensor mouse.

During the Track Record Period, our R&D expenses and capitalised development costs, trademarks and patent fees amounted to approximately HK\$9.7 million, HK\$12.2 million and HK\$22.3 million. For details of our R&D capabilities and achievements, please refer to the section headed “Business Overview – Competitive Strengths – Technology leadership” in this document.

### ***Going forward***

Envisaging continuing growth of the capacitive touch interface market and long term customer relationships, we aim to maintain our focus on capacitive touch products as our main and stable source of revenue and within the touch product segment, we plan to focus more on touch screens. We plan to enhance and upgrade our production and testing equipment for touch screen related products for customers including Synaptics. In parallel, we will strive to reduce our dependence on one particular product segment by the manufacturing of fingerprint biometric devices, wireless charging devices and plasma lighting products which we believe have potentials for growth.

Over the years, we have emerged as a provider of “life-technology” by supplying products and technologies which are used to facilitate everyday life, be it from computer navigation to automobile navigation or data security authentication to lighting applications. Going forward, we wish to continue this vision of being a provider of “life-technology” to consumers and at the same time, introduce further cutting-edge technologies for wider applications in daily life.

## **COMPETITIVE STRENGTHS**

We consider the following to be our principal competitive strengths:

### **Leading position in manufacturing of capacitive touch pads**

We have been in the capacitive touch pad business for over 10 years, during which we have provided contract manufacturing services in the manufacturing of capacitive touch pads to Synaptics, a leading provider of capacitive touch pads. Utilising technologies and patents owned by this customer and our SMT and COB production experiences, we have become one of the leading capacitive touch pad suppliers for notebook computers by volume. From 2004 to 2009, we sold approximately 306.0 million capacitive touch pads in total. According to iSuppli Corporation, during the same period, global capacitive touch pad shipments for the notebook computers segment were estimated to be approximately 579.0 million and the global shipments for notebook computers were estimated to be approximately 578.2 million, respectively.

Capacitive touch technology is generally considered in the industry to possess advantages over its alternative, traditional resistive technology. Please refer to the sections headed “Industry

## **BUSINESS OVERVIEW**

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Overview – Touch Pad Market – Major Types of Touch Pad Technologies” and “Business – Our Products – Capacitive touch products” in this document for details.

While we rely on licensed technologies and patents, we attribute our success in the global capacitive touch pad supply to, amongst other things, our specialty production know-how and our industry experience acquired over the years. Our products have satisfied the design specifications of our industry leading customer and received qualifications from international computer and consumer electronics brands. Further details are set forth in the section headed “Relationship with Synaptics” in this document.

We believe that our leading position in capacitive touch pads is our key strength and we aim to maintain our market position going forward. iSuppli Corporation estimates that the projected global capacitive touch pad shipment for notebook computers for each of the full years of 2010, 2011, 2012 and 2013 will be approximately 164.2 million, 185.5 million, 210.4 million and 235.1 million, respectively, at a CAGR of 9.39%. We believe we are well positioned to capture such growth opportunities, given our over-10-year track record in manufacturing touch pads for Synaptics.

### **Technology leadership**

We strive to be technologically competitive by equipping ourselves with our own R&D capabilities.

During the Track Record Period, we have been active in conducting R&D projects and product design in-house and have built a portfolio of product designs, technologies and applications, with an emphasis on fingerprint biometrics:

- **Fingerprint mouse** (a mouse which comprises a fingerprint sensor for login, file encryption and screen saver lock)
- **Fingerprint keyboard** (a keyboard which comprises a fingerprint sensor for login, file encryption and screen saver lock, and a SecuButton™ for encryption of files)
- **Fingerprint scanner with LED indicator** (a fingerprint scanning device which flashes when in operation, providing an instant response and feedback to the user)
- **USB fingerprint dongle** (a product which enables users to store login details, websites or encrypt files through fingerprint sensor)
- **SecuButton™** (a capacitive touch button, which enables the encrypting of files by the touch of a finger, and which works with a fingerprint sensor for unlocking the encrypted files)
- **“Touch and Lock” and “Multi Touch Lock” applications** (technologies which provide the locking and unlocking of computer screens with user’s fingerprint)
- **SecuFile™** (a technology which secures computer folders or files with user’s fingerprint)

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## **BUSINESS OVERVIEW**

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*C-touch fingerprint biometric products developed by our Group (yet to be commercialised)*

Furthermore, we are in the process of researching and developing in-house, lens and lamination panels for touch screen applications and the rechargeable wireless charging devices as part of our future plans. We believe these ongoing research projects will contribute to our business growth in the future.

In addition to our in-house capabilities, we utilise external R&D resources. We have joined forces with universities to develop an algorithm for finger gesture detection, to perform navigation and tasks on screen by recognising finger motions, and a plasma lamp bulb for street lamp lighting. Through such collaborations, our R&D personnel are able to acquire from academic staff the latest industrial know-how related to our business.

### **R&D capabilities and brand development**

We started our business as a manufacturing services provider of primarily touch pads utilising our customers’ technologies patents and other intellectual property licensed from our customer. As technology and market expectations have changed over the years, we have, during the Track Record Period, developed our own R&D capabilities.

In recent years, we have progressed further into developing our own R&D capabilities and devoting additional resources in technological advancement and have succeeded in designing and developing a series of our own fingerprint biometric products (which are yet to be commercialised), including our fingerprint scanner with LED indicator and fingerprint mouse which are intended to be launched, marketed and sold under our own “C-touch” brand. By developing our own brand products, we believe we will be able to capitalise on the growth opportunities in the segments we choose to enter into, broaden our customer base and build additional revenue streams.

## **BUSINESS OVERVIEW**

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### **High product quality and competitive cost structure**

We believe that we are a cost and quality leader in the touch product industry, as demonstrated by our output volume during the Track Record Period. With our over 10 years of experience in the touch product business, our Directors believe that we possess the production know-how and manufacturing and engineering capabilities which may not be generally available to our competitors. We believe that our production know-how built from our long-term relationships with industry leaders and cost-effective procurement contribute to our competitive cost structure.

We are committed to produce high quality products with a negligible defect rate as our customers demand high quality and precision. Depending on the complexity of the products, according to our customer’s feedback, we maintain a less than 50ppm rate of defect for touch pad manufacturing. Through warning systems, quality assurance procedures at various stages of the production processes and detailed testing procedures, we are able to implement stringent quality control for the products we manufacture.

We have passed a number of initial qualifications and regular audits conducted by ODM/OEMs of notebook computers and consumer electronics and end-users in the touch product supply chain (i.e. consumer electronics brands) in respect of, inter alia, our touch products, production process and our manufacturing site in Jiangmen. We also engage in the design-win process with our customers prior to the launch of a new product. This is a process during which we work closely with our customers to ensure that their design specifications are satisfied before the mass production of a new product would begin. These qualification, audit and design-win processes are costly and time-consuming, which present a market entry barrier for potential competing touch product manufacturers and impediment for our customers to turn to alternative manufacturing services providers. We have also obtained accreditations including ISO14001:2004 and OHSAS18001:2007 in respect of our quality, environmental and health and safety management systems.

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We have received CE and FCC certifications and have been awarded with certificates of compliance from international conformity assessment authorities. We have also adopted the EICC standards, a set of industry code of conduct commonly expected of electronics manufacturing services providers established by international notebook computer and other consumer electronics companies.



*Our production base equipped with i-Manufacturing system*

Our Jiangmen production base is equipped with our i-Manufacturing system, which makes use of a web portal incorporating BAAN ERP system, Valor’s vManage system together with our other internal systems for management of day-to-day operations, accounting management and monitoring real-time machine performance and shop floor controls. We have also invested in barcode identification and tracing systems, the full implementation of which enables the traceability of production materials and processes.

In addition, we have designated programme management and in-house quality assurance teams to ensure that the quality and production of our products meet the requirements and targets of individual customers. Our programme management team closely monitors processes from product planning, manufacturing, testing to quality control to ensure our products meet each customer’s specific requirements.

### **Long-term relationship with major customer and supply chain end-users**

We do not have any long-term sales agreements with our customers and instead rely on individual purchase orders and invoices. However, we have successfully maintained ongoing orders from Synaptics for over 10 years. Our Group has secured long-term demand from this customer as we have satisfied its and its customers’ requirements. Synaptics, has in place, a quarterly business review program whereby it discusses with us and monitors, amongst other things, the quality aspects of our production of touch products.



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## **BUSINESS OVERVIEW**

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Although ODMs/OEMs of notebook computers and the end customers of the touch pad supply chain (i.e. consumer electronics brands) are not our direct customers contractually for touch pads, in order to ensure that their specifications and expectations in our products are met, we work closely with these industry players through qualification processes and regular audits. Through such contact, we have been able to establish long term relationships directly with them and provide touch pads which satisfy their specific requirements.

We believe our well-established and long-term relationships with our major customer and supply chain end-users have resulted from our track record of quality products, production know-how, industry experience, dedicated programme management teams, and competitive pricing and after-sales services.

### **Close partnerships with industry leaders**

We have established partnerships with some industry leaders in terms of product development and testing. Our engineers work closely on site with the personnel of these business partners to create solutions and carry out testing to speed up product launches. Prior to engaging in mass production of a new product, our Group would engage in a design-win process with relevant customers. During the course of this process, the relevant customers would work closely with us to ensure that we can satisfy design specifications and that our production facilities and capability fulfills requisite requirements. It is only upon due completion of the design-win process that mass production of a certain product would commence. This process reflects the level of commitment of the relevant customers to the products and the expected demand.

Cooperation with our industry leading customers in R&D projects allows the exchange of information and know-how on the latest technological developments in the industry and, accordingly, keeps our R&D team abreast of up-to-date trends and technologies.

### **Experienced management team with proven track record and industry expertise**

Our senior management team has in-depth industry experience and engineering skills in circuit assembly production and electronics. Members of our senior management team were educated and/or have worked in the electronics industry in the United States, Singapore and the Philippines. They bring valuable international experience, industry connections, know-how and perspectives in terms of production and marketing.

As at the Latest Practicable Date, our R&D team comprised 45 skilled and experienced core employees and 334 R&D related engineers covering electronics, software and mechanical engineering, product industrial design and intellectual property development.

## **STRATEGIES AND FUTURE PLANS**

While we will continue our effort on capacitive touch products, going forward, in addition to maintaining our leading position in touch pad manufacturing, our vision is to become a provider of “life-technologies” in the markets for capacitive touch products, fingerprint biometric devices, wireless charging devices and plasma lighting products.

We aim to grow our market share in the capacitive touch product market, which has been the main source of our revenue over the Track Record Period, and within the touch product segment, to

## **BUSINESS OVERVIEW**

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have an increased focus on touch screens. It is also our aim to diversify our product portfolio as a natural expansion of our SMT/COB production capability. We see significant market growth potential for fingerprint biometric devices, wireless charging devices and plasma lighting products and we aim to continue our focus on these products. Further details of which are set out in the sections headed “Industry Overview – Touch Screen Market”, “Industry Overview – Fingerprint Device Market”, “Industry Overview – Wireless Charging Market” and “Industry Overview – Plasma Lighting Market”.

Our core strategies and future plans are set out below:

### **Continue our focus on the touch product market with an increasing emphasis on touch screen production**

We believe that growth potential exists in the global capacitive touch product market for notebook computers, portable music and media players, mobile and smart phones as the markets for these consumer electronics are expected to continue to grow. We have been a long-term supplier to Synaptics for over 10 years and with whom we intend to fortify our business relationship in the foreseeable future.

iSuppli Corporation estimates that the global market for capacitive touch pads (including touch buttons) for the PC and mobile device segments will grow from approximately 379.3 million unit shipments in 2009 to 774.9 million unit shipments in 2013, at a CAGR of 19.6%. It also estimates that the projected global capacitive touch pad unit shipment for notebook computers for each of the full years of 2010, 2011, 2012 and 2013 will reach approximately 164.2 million, 185.5 million, 210.4 million and 235.1 million respectively, i.e. at a CAGR of 9.39%.

To capture the growth opportunities in the touch products market and business from potential customers, we plan to increase our production of touch products, in particular, touch screen products. We plan to enhance and upgrade our production and testing equipment for touch screen related products for customers including Synaptics. It is our strategy to develop lens and lamination technology for touch screen applications, as we believe that touch screens will continue to be the mainstream computing interface in day-to-day life going forward. We plan to purchase additional production equipment for applying lens and lamination technology in the production of touch screens. We intend to offer “one-stop-shop” turnkey production for touch screen products by offering the production of touch screen panels and other component parts and assembly of these parts to produce touch screen products.

We believe that our strengths, in particular, over 10 years of experience in the industry, our long-term relationships with the global leader in touch pads, and other global industry leaders, coupled with the technical know-how involved in the production processes and the intensive capital investment required for building up production facilities resulting in an entry barrier, gives us a competitive advantage over our direct competitors and potential new entrants.

We intend to maintain our long-term relationships with existing customers through our customer specific programme teams and by achieving on-time delivery of products which meet our customers’ quality and cost targets. As a value-added service that strengthens customer loyalty, upon full implementation of our i-Manufacturing system, our customers will be provided with real-time

## **BUSINESS OVERVIEW**

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status and traceability information for their orders on our website, including camera surveillance on our production process, status updates on expected delivery and transportation. We also plan to integrate RFID technology with our customers’ traceability systems to allow automatic and real-time identification of products for our customers.

### **Capitalise on growth opportunities in fingerprint biometrics technology**

We have observed an increasing demand for data security and biometric authentication in personal computers, computer peripherals, consumer electronics and other applications generally used in day-to-day life and we foresee considerable room for expanding into this market with fingerprint biometric devices and products. Our objective is to roll out a portfolio of fingerprint biometric products under our own “C-touch” brand and commercialise fingerprint security applications in daily lives.

We believe that our efforts in building a portfolio of intellectual property in fingerprint biometric products and applications during the Track Record Period will enable us to tap into this relative new market and that our patent applications, once approved and granted, will safeguard us from potential competition.

### **Combine touch and fingerprint technologies to create new applications**

Building on our wealth of capacitive touch product and fingerprint biometrics experience, we intend to combine touch and fingerprint technologies to create new applications. During the Track Record Period, we have developed a fingerprint keyboard comprising a SecuButton™ and a fingerprint sensor. This device simplifies computer security controls by combining our experience in touch sensing and fingerprint biometrics. We plan to further develop and commercialise this combined application for use in notebook computers.

### **Diversify in life-technologies through R&D capabilities and technology partnerships**

We will continue to focus on R&D and diversify into life-technologies through either our in-house capabilities or through partnerships with customers and other third parties. We intend to extend our in-house R&D capabilities by adding designs and applications to our portfolio and to expand the range of products and solutions we currently offer. Our strategy is to further recruit qualified and experienced R&D personnel and to step up our development of designs and technologies.

Prior to diversifying into a new product, we would engage in a design-win process with relevant customers. During the course of this process, our customers would work closely with us to ensure that we can satisfy design specifications and that our production facilities and capability fulfills requisite requirements. It is only upon due completion of such design-win process that mass production of a certain product would commence. This process reflects the level of commitment of customers to our products and the expected demand.

We have been providing our long-term customer with the use of R&D facilities on site with the objective of shortening time-to-market and we will continue to extend such facilities to our customers and strategic partners going forward. In addition, we aim to continue our partnerships with academic institutions to develop leading-edge technologies and applications.

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## **BUSINESS OVERVIEW**

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It is our strategy to diversify into life-technologies by supplying products, applications and technologies to enhance the quality of daily life. We will continue to pursue this strategy with our own R&D capabilities to develop products and technology including eCardFlex™ technology and portable wireless charging devices.

Our Directors believe that our commitment to R&D and commercialisation of new self-developed products will contribute to reducing our Group’s reliance on a single product segment.

### **Enhance our position in wireless charging market**

Wireless charging is one of the focuses of our product diversification. We produced wireless charging devices including power transmitters and power receivers, involving the use of components supplied by our customer during the Track Record Period for a customer and made our first shipment in August 2009. During the Track Record Period, we only had one customer which has, since 2007, been introducing wireless charging devices to various media in anticipation of its commercialisation. Our Directors have observed its commercial acceptance and foreseen a growing customer base, as well as an increasing future demand for wireless charging devices. As such, with our technical know-how in battery design and the capability to provide manufacturing services and other engineering support for wireless charging devices, we aim to increase our focus on this market, which we expect to be of increasing significance in our Group’s business. We also intend to co-develop other applications of wireless charging with our customer.

### **Expand the sales of plasma street lamps**

During the Track Record Period, we provided contract manufacturing services in the assembly of plasma light projectors. In 2009, and we have started the production of plasma street lamps by adopting plasma lighting technology we applied for the manufacturing of plasma light projectors into street lamp lighting, by using, amongst other things, light bulb sourced from Luxim. We have begun to sell plasma street lamps to our first street lamps customer in the fourth quarter of 2009, to whom our sales have increased in the first quarter of 2010. We have also received orders from another customer in addition to which we intend to further introduce such technology to other customers, including government authorities and city bureaus in the PRC for wider usage in street lamps in towns and cities in China. The Group plans to expand the sale of plasma street lamps to other customers once it has established the market for such products.

### **Pursue potential acquisition opportunities**

In addition to R&D and partnerships, as part of our future expansion plan, we will also consider any suitable targets for undertaking mergers or acquisitions. As at the Latest Practicable Date, we had not yet identified any potential targets for mergers or acquisition nor had we drawn up any concrete plans for such acquisition but we are interested in exploring the opportunities of acquiring any company which offers innovative technologies, particularly in life-technologies electronics products. Through such potential acquisition, we wish to benefit from synergies with the potential target company in life-technologies so that we can further diversify into life-technologies.

## **BUSINESS**

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### **SUMMARY**

We are a leading provider of capacitive touch pads by volume for use in notebook computers. We provide capacitive touch products, including touch pads, to Synaptics, a global leader of capacitive touch pads. Sales of touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9% and 79.4% of our annual revenue during the Track Record Period. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. Please refer to the “Risk Factors” and “Relationship with Synaptics” sections in this document for further details.

The decrease in the proportion of sales to Synaptics was mainly attributable to our Group’s active efforts in diversification of product portfolio during the Track Record Period, in particular, the mass production of wireless charging devices in the second half of the year ended 31 December 2009, further details of which are discussed below.

During the Track Record Period, we have focused on touch pad manufacturing mainly as a manufacturing services provider, with value-adding know-how mainly in respect of engineering design and assembly. Our major customer of capacitive touch products, Synaptics, is a supplier to ODMs/OEMs of notebook computers and consumer electronics.

In addition to producing capacitive touch products, we have, through years of operating as a manufacturing services provider, acquired the requisite experience in SMT/COB production processes and capability to produce a range of consumer electronic products. We consider our diversification into non-touch products to be a natural expansion of our SMT/COB production capability into markets with significant growth potentials. We began our diversification of product portfolio with the commercialisation of fingerprint biometric devices in July 2008. We are also a manufacturing services provider in this product segment by sourcing fingerprint sensors externally and manufacturing fingerprint biometric devices for use in notebook computers. We provide engineering design support in the course of production.

With the support of our R&D team and our customers, we have further diversified into the production of plasma lighting products and wireless charging devices during the Track Record Period. We are committed to distinguish ourselves from a traditional manufacturing services provider and we have invested resources into research and development for these new products. For wireless charging devices, we co-developed the wireless charging devices with our customer by providing battery design and engineering support. For plasma lighting products, we provided manufacturing services to our customer for plasma light projectors and also developed and introduced plasma street lamps.

The non-touch products, namely fingerprint biometric devices, lighting source and wireless charging devices, carried higher gross profit margins (approximately 42.2%, 37.9% and 29.8% in the year ended 31 December 2009, respectively) when compared to capacitive touch products (approximately 27.6% in the year ended 31 December 2009). For details of the respective revenue and gross profit margins of our products, please refer to the section headed “Financial Information” in this document.

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## BUSINESS

The following table sets forth the breakdown of our revenue by product segment during the Track Record Period:

Revenue from	Year ended 31 December					
	2007		2008		2009	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Capacitive touch products	614,727	91.2%	722,158	96.3%	689,364	77.6%
Fingerprint biometric devices	–	0.0%	69	0.0%	42,281	4.8%
Lighting source <sup>Note 1</sup>	40,962	6.1%	4,849	0.6%	17,775	2.0%
Wireless charging devices	–	0.0%	–	0.0%	102,431	11.5%
Others <sup>Note 2</sup>	18,604	2.7%	22,712	3.1%	36,497	4.1%
<b>Total</b>	<b><u>674,293</u></b>	<b><u>100%</u></b>	<b><u>749,788</u></b>	<b><u>100%</u></b>	<b><u>888,348</u></b>	<b><u>100%</u></b>

Note:

1. Lighting source consists of plasma light projectors and plasma street lamps.
2. Other products include automotive devices, plastic components, medical products and mining and drilling machine system products.

We also aim to introduce new products and technologies to improve the quality of life of consumers. It is our vision to become a provider of “life-technologies” in the various markets for capacitive touch products, fingerprint biometric devices, wireless charging devices and plasma lighting products. The following table summarises our major products and examples of their commercial applications:

Product categories	Products	Product descriptions	Examples of commercial applications
<b>Capacitive touch products</b>	Capacitive touch pad	<ul style="list-style-type: none"> <li>● A capacitive touch component that includes a PCB with controller IC, which can be installed into notebook computers and consumer electronics</li> </ul>	<ul style="list-style-type: none"> <li>● Notebook computers</li> </ul>
	Multi-media button	<ul style="list-style-type: none"> <li>● A button to enable on/off commands by a finger’s touch. Its opacity allows it to be placed on objects such as glass or windshields</li> </ul>	<ul style="list-style-type: none"> <li>● Handheld electronic devices</li> <li>● Electrical appliances</li> <li>● Computer keyboards</li> </ul>

**BUSINESS**

<b>Product categories</b>	<b>Products</b>	<b>Product descriptions</b>	<b>Examples of commercial applications</b>
	Touch screen	<ul style="list-style-type: none"> <li>● A clear thin sensor placed on a display device to perform applications such as volume, brightness, power status and other control functions</li> </ul>	<ul style="list-style-type: none"> <li>● Multimedia smart phones</li> <li>● Notebook computers</li> </ul>
<b>Fingerprint biometric devices</b>	Fingerprint module	<ul style="list-style-type: none"> <li>● A fingerprint biometric device which can be installed into a notebook computer and consumer electronics</li> </ul>	<ul style="list-style-type: none"> <li>● Notebook computers</li> <li>● Computer keyboards and appliances</li> </ul>
	Multi-media button with fingerprint biometric device	<ul style="list-style-type: none"> <li>● A multi-media button combining capacitive touch technology and fingerprint biometric technology in consumer electronics, which enables users to store login details to window systems and to encrypt and permit personal access of separate users’ files</li> </ul>	<ul style="list-style-type: none"> <li>● USB flash memory</li> <li>● Computer hard disks</li> <li>● Fingerprint mice</li> </ul>
<b>Plasma lighting products</b>	Plasma light projector	<ul style="list-style-type: none"> <li>● A projector to produce plasma light source with lower cost, higher efficiency and reliability</li> </ul>	<ul style="list-style-type: none"> <li>● Plasma light projectors</li> </ul>
	Plasma street lamps	<ul style="list-style-type: none"> <li>● A lighting device using plasma lighting technology</li> </ul>	<ul style="list-style-type: none"> <li>● Plasma street lamps for roads, highways and industrial parks</li> </ul>
<b>Wireless charging devices</b>	Flat surfaced or foldable wireless charging device	<ul style="list-style-type: none"> <li>● A power transmitting device in the form of a “mat” for wireless power charging</li> </ul>	<ul style="list-style-type: none"> <li>● Wireless power charging devices for battery charging of low-energy consumer electronics</li> </ul>
	Power receiver	<ul style="list-style-type: none"> <li>● An external power receiver to connect the consumer electronics to be charged with the power transmitting charging device</li> </ul>	
<b>Others</b>	Contract manufacturing services	<ul style="list-style-type: none"> <li>● Contract manufacturing services offered to OEMs to produce various products</li> </ul>	<ul style="list-style-type: none"> <li>● Electrical components for mining/drilling equipment</li> <li>● Automotive devices</li> <li>● Medical equipment</li> </ul>

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## **BUSINESS**

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### **OUR PRODUCTS**

#### **Capacitive touch products**

We have been in the capacitive touch product market for over 10 years. During the Track Record Period, we produced capacitive touch products which included touch pads, multi-media buttons and touch screens. Amongst our various capacitive touch products, capacitive touch pad is our core product and was our revenue driver. From 2004 to 2009, we sold approximately 306.0 million of capacitive touch pads in total.

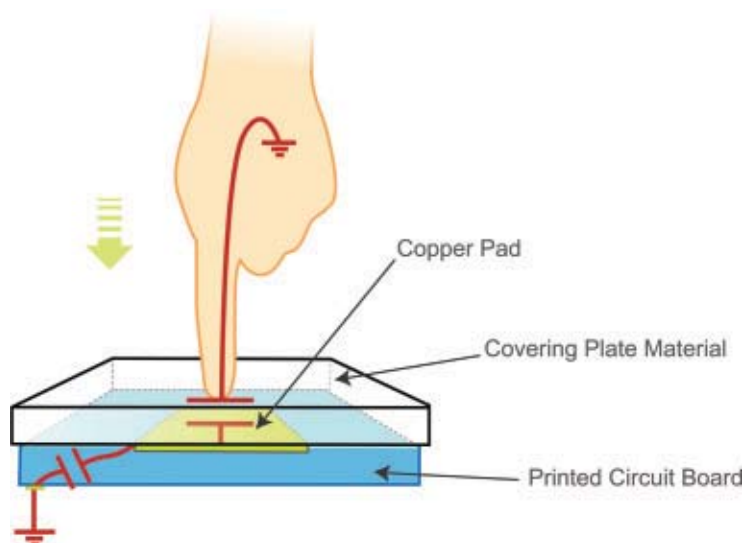
Over the years, the sales of touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9% and 79.4% of our total revenue for each of the three years ended 31 December 2009, respectively. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue.

Our touch pads are made for assembly into notebook computers of international brand names. Although ODMs/OEMs of notebook computers and the end customers of the touch pad supply chain (i.e. consumer electronics brands) are not our direct customers contractually for touch pads, in order to ensure that their specifications and expectations in our products are met, we work closely with these industry players through qualification processes and regular audits. Through such contact, we have been able to establish a long term relationship directly with them and provide touch pads which satisfy their specific requirements.

We have observed the high growth potential of the consumer electronics market for notebook computers, portable music and media players, mobile phones and other consumer electronics. In particular, we have also observed an increasing trend of consumer electronics products incorporating capacitive touch features into their designs. In addition to touch pads, we also produce other touch products such as multi-media buttons and touch screens which may be used in multi-media smart phones, portable media players (including MP3 players), handheld messaging and personal digital assistant devices and peripheral computer equipment (such as keyboard function bars).

Capacitive touch products involve a touch-sensitive device that senses the position of a person’s finger on its surface through the measurement of an electrical property called capacitance.

The following diagram illustrates how capacitive touch technology works:



*A capacitive touch pad is a solid-state sensor made on a printed circuit board. A finger on, or in close proximity to, a grid of conductive traces changes the capacitive coupling between adjacent traces. This change in capacitance can be measured and the finger position can be computed.*

*The finger does not have to be in contact with the surface in order for it to be detected by the sensor. This is the principle used in multi-media buttons that includes “proximity sensing”, which is usually used to “wake up” a device as the user moves a finger towards the button.*



## **BUSINESS**

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Capacitive touch technology is generally considered in the industry to have the following comparative advantages over its alternative, resistive technology:

- Durable
- Allows accurate positioning
- Supports “multi-touch”, the growth of which is an important trend in the capacitive touch market
- Permits slimmer designs
- Offers higher reliability and resolution but lower power use

The touch pads we produce are made in different sizes, thickness, electrical interface and functionality in accordance with our customers’ specifications. In order to ensure our products satisfy Synaptics’ technical and functional requirements and to protect its proprietary technology and technical know-how, in line with usual industry practice for manufacturing services providers to share and utilise Synaptics’ intellectual property rights of their customers in providing manufacturing services, we have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics which authorises us to utilise Synaptics’ proprietary ICs, designs, drawings, specifications and software solely for use in the production of its touch products. The consigned ICs are shipped to us directly from the IC suppliers and payment for the ICs is settled by Synaptics directly with its IC suppliers. Synaptics also provides us with work instructions, toolings and necessary software specific for the production and testing of its touch products which are not generally applicable to all touch products in the market.

Despite the fact that we rely on Synaptics’ technologies and patents in that we are consigned with ICs, one of the key components of touch pads, and provided with specifications and other work instructions by Synaptics, and that we have mainly focused as a touch pad manufacturing services provider, with our value-adding know-how mainly being in engineering design and assembly, we regard ourselves as Synaptics’ manufacturing partner but not a mere sub-contractor. Based on our production know-how and track record experience, we provide suggestions to our customer such as PCB modifications, use of alternative components and component positioning with the aim of achieving higher production efficiency and cost advantages. In terms of procurement, there are other key components of touch pads, such as connectors, PCBs and mylars, which instead of being provided with or consigned by our customer, we source from distributors in the market. Further details are set forth in the section headed “Relationship with Synaptics” in this document.

## **BUSINESS**

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We produce the following capacitive touch products for our customers:



*Capacitive touch pad for notebook computers*

- **Capacitive touch pads**

The touch pads we produce as an OEM feature easy movement over the touch surface without requiring an activation force, can be used on both curved and flat surfaces to permit much thinner sensors for slimmer industrial designs and are not as susceptible to mechanical wear, hence allowing better positional accuracy and larger durability. The firmware in our touch pads is able to detect and report more than one touched point at one time, allowing changes in boundaries of touched points.

- **Multi-media buttons**



*Multi-media button for notebook computers*

Our multi-media buttons are buttons which detect the presence and absence of an electric conductive object (such as a finger), to perform applications for media, volume, brightness, power status and other control functions in handheld electronic devices and electrical appliances.

## **BUSINESS**

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- **Touch screens**



*Touch screen for LCD*

Touch screens consist of clear thin sensors which can be placed over transparent surfaces including display devices, such as LCDs. The size of the sensor surface can be customised for various applications according to the specific requirements. A touch screen sensor detects the presence, position and contact area of one or more fingers or a conductive stylus on a flat or curved surface and can be widely used in consumer electronics such as portable media and music players, mobile phones and other electrical appliances.

According to the iSuppli Touch Report, the overall market size of capacitive touch pads is estimated to reach approximately 379 million units in 2009 and to further increase to approximately 775 million units in 2013, representing a CAGR of approximately 19.6%. For touch screen products, according to DisplaySearch, shipments of touch screen modules are expected to increase from approximately 483 million units in 2009 to approximately 1.4 billion units by 2015, representing a CAGR of approximately 16.9%, which is approximately 3.4 times faster than the growth of the display industry.

Touch screens are relatively new products and despite the fact that touch pads have existed for more than a decade, based on the iSuppli Touch Report's estimated growth rate, our Directors believe that the product life-cycles of both touch pads and touch screens are still at their growth stage and the overall market size will increase in the coming years. In particular, given the comparatively lower costs of capacitive touch pads compared to touch screen products and the forecasted increase of the market size of capacitive touch pads at a CAGR of approximately 19.6% between 2009 and 2013, according to the estimation of iSuppli Touch Report, our Directors do not consider the market for capacitive touch pads to be diminishing, nor will it be replaced by touch screen modules in the foreseeable future. We also believe that the capacitive touch pad and touch screen markets are different in that touch pads and touch screens can be used in different electronic products. Touch pads are mainly used in notebook computers and multi-media players, whilst touch screens can be applied to inter alia, mobile phones, televisions and desktop PC monitors.

In the unlikely event that capacitive touch pads are replaced by other products and our touch pad business becomes obsolete, which our Directors believe to be unlikely in the near future, we believe that given our production know-how and experience in SMT and COB production, together with the transferability of our production facilities, we will be able to fall back on our ability to

## **BUSINESS**

produce other touch products, such as touch screens and multimedia buttons, and other products including fingerprint biometric devices, wireless charging devices and plasma lighting products. For details, please refer to the section headed “Business – Production – Production facilities” below in this section.

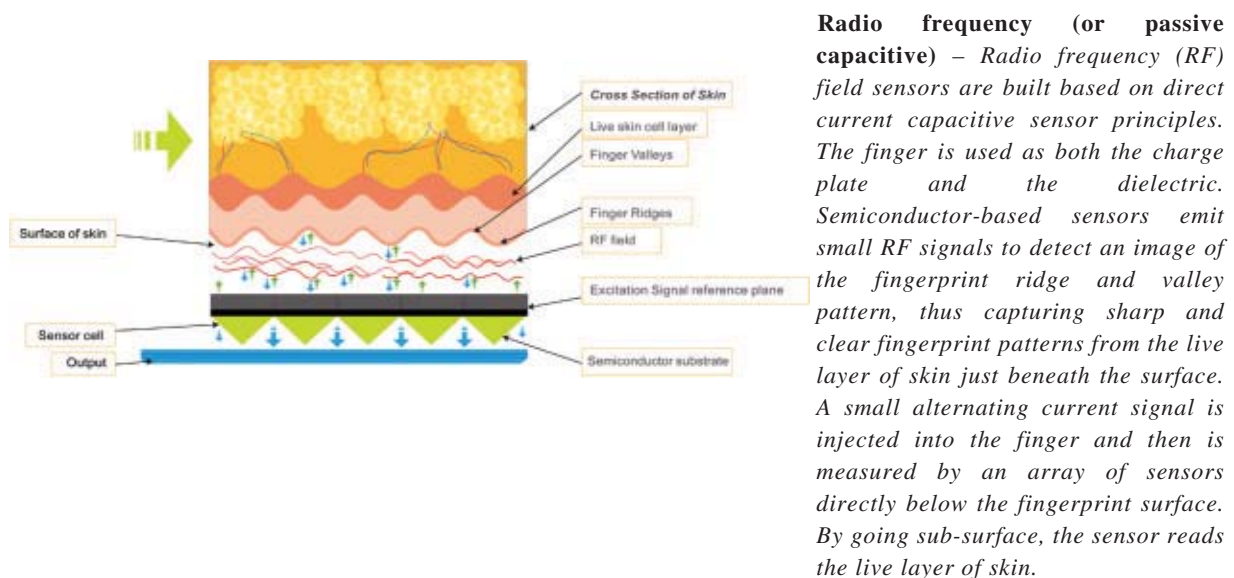
Our Directors do not consider our Group to be subject to the risk of obsolescence as we base our production on the volume of orders placed by customers and hence there is no material inventory of finished products (other than temporary storage prior to delivery to customers).

### **Fingerprint biometric devices**

We believe that there is an increasing awareness in data security protection generally as a result of which interest in biometric products and authentication devices is increasing. Accordingly, we commenced the manufacturing of fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we sold a portion of our fingerprint biometric devices.

Fingerprint biometric devices incorporate capacitive touch technology which involves human fingerprint identification in its application. Like capacitive touch products, it requires the capacitance of humans, but possesses a criterion of greater recognition by fingerprints. The authentication of human fingerprint allows fingerprint biometric devices to be used in the security and protection of sensitive data and information. Fingerprint biometric devices operate by detecting a fingerprint’s capacitance, hence the ability to read the live layers of skin and recognise the precise fingerprint image. An added advantage of using capacitive technology in a fingerprint biometric device is that strong pressure is not required to be applied to activate the device.

The following diagram illustrates how a fingerprint biometric device works with radio frequency (or passive capacitive) technology:



During the Track Record Period, we manufactured fingerprint biometric devices for (i) Validity Sensors Inc., a customer which supplied us with the fingerprint sensors for assembly and incorporation into notebook computers, and (ii) international ODMs/OEMs for notebook computers. Our Group has been granted a non-exclusive and royalty-free software licence for a perpetual term

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by Validity Sensors Inc. for use in our assembly process of fingerprint biometric devices. We do not yet possess the capabilities to produce fingerprint sensors, and in respect of the fingerprint devices we produced for international ODMs/OEMs of notebook computers, our Group purchases fingerprint sensors from the said customer as it is designated as an “approved vendor” by international notebook manufacturers.

With the fingerprint sensors sourced externally, we have also developed our own fingerprint biometric products under our own brand “C-touch”, which include USB fingerprint dongle, fingerprint mouse and fingerprint keyboard which we plan to commercialise.

We commenced commercialisation of our fingerprint biometric devices in July 2008 and we have since then seen this product segment grow and by 2009, our Group has begun to make direct shipment of our fingerprint devices to various ODMs/OEMs of notebook computers. Our revenue from the fingerprint biometric devices increased significantly from approximately HK\$69,000 for the year ended 31 December 2008 to HK\$42.3 million for the year ended 31 December 2009. We believe the growing consumer interest in this market and potential for profit growth justify our continued effort in this product segment. We further believe that authentication ATMs with biometric features, peripheral computer equipment (which includes USB drives, keyboards, external hard drives, and standalone fingerprint sensor pads for desktops), mobile phones with biometric applications and password-free access control (i.e. secure access technologies that do not require keys, password or PIN numbers) are important and possess growth potential in the evolving fingerprint sensor market.

### **Plasma lighting products (projectors and street lamps)**

During the Track Record Period, we provided contract manufacturing services in assembling plasma light projectors. We also developed and manufactured plasma street lamps.

We have been granted a non-exclusive and royalty-free licence by our plasma light projector customer, Luxim, for use in providing manufacturing services for Luxim. With the materials purchased from approved suppliers and certain tooling consigned by Luxim, we are licensed to manufacture, test and assemble plasma lighting products for Luxim in accordance with its specifications, in the process of which, we are also licensed to use its software and product technology.

In November 2009 we made our first shipment of plasma street lamps to our first street lamps customer and it accounted for approximately 4.8% of our total revenue in the fourth quarter of 2009 and approximately 1.8% of our total revenue for the year ended 31 December 2009. We have also received orders from another customer, in addition of which, we have entered into non-binding letters of intent for the sale and purchase of plasma street lamps with various other potential customers.

The revenue we derived from the plasma lighting segment in the Track Record Period was approximately HK\$41.0 million, HK\$4.8 million and HK\$17.8 million respectively. Our focus in this product segment was initially on the production of plasma light projectors as a manufacturing services provider, which later shifted to plasma street lamps in the course of the year ended 31 December 2009. The plasma street lamps we assembled utilises a licensed technology which is designed to produce a high intensity light with high efficiency and long life. We have not entered into any long-term agreement with our customers for our plasma street lamps.

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Given the current global environmental concerns over energy resources and climate change, countries in Europe, the United States (California) and Japan have announced in succession that they will stop producing and selling incandescent lamps. Moreover, in line with environmental concerns and increasing demand for environmental-friendly products, it is expected that some provinces in the PRC may consider the use of plasma street lamps as an alternative to traditional street lamps currently in use, which compared with plasma street lamps, are high energy consuming, and have a relatively shorter lifespan. As such, our Directors believe that there will be a growing demand in plasma street lamps as an environmentally friendly and energy efficient alternative.

### **Wireless charging devices**

As part of our strategy to diversify our product mix and reduce our dependence on one single product segment, we also engaged in the production of wireless charging devices for one customer, HoMedics Group, during the Track Record Period. We co-developed this wireless charging devices with our customer by providing battery design and engineering support.

Wireless charging utilises the technology of “proximity inductive power transfer”, which involves the transfer of energy via magnetic induction between two magnetic coils placed in the proximity of one another. The power transmitter in the wireless charging device detects the presence of suitable power receiver in the proximity and the power receiver (either connected externally or installed in the mobile device) digitally signals the power transmitter its power needs. With the connection of a power receiver, our wireless charging devices enable battery charging for a range of consumer electronic devices, including mobile phones, multi-media players, personal digital assistants devices, handheld electronic games and digital cameras, which are either equipped with power receivers or externally connected to the power receivers, by placing them on the surface of the flat-surfaced or foldable wireless charging device, without the need to connect electrical wires between the mobile devices and the power sockets directly. The flat-surfaced or foldable wireless charging device would need to be connected to the power sockets for electricity.

We commenced shipment of our wireless charging devices in August 2009 and revenue from the wireless charging segment for the year ended 31 December 2009 amounted to approximately HK\$102.4 million, which constituted approximately 11.5% of the revenue of our Group for the year ended 31 December 2009. During the Track Record Period, we only produced wireless charging devices for one customer, HoMedics Group, which supplied us with the necessary components for our production. Although we do not own the relevant technology for wireless charging, in the process of our assembly of wireless charging devices for this customer, we are involved in the product design aspects of the production in relation to battery size and capacity, and other engineering support in the course of production. As such, we consider ourselves to be a co-development partner for our customer and not a mere sub-contractor of wireless charging devices. The finished products are shipped or transported overseas including the United States, Canada, the United Kingdom and Italy.

Our business relationship with non-touch product customers is relatively short, being less than one year on average, and we have not entered into any long term agreement with them. We however, aim to grow our business relationship with these customers going forward on a long-term basis. Our Directors believe that there will be increasing demand for wireless charging devices and we expect this product segment to be of an increasing significance to our business going forward.

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### **Others**

During the Track Record Period, we also worked closely with other customers by providing contract manufacturing services for products including automotive devices, medical equipment and electrical components for drilling equipment.

Although the production of these products was not a main source of our revenue during the Track Record Period, it offered opportunities for us to diversify our customer base. The revenue derived from the production of these other products during the Track Record Period amounted to approximately HK\$18.6 million, HK\$22.7 million and \$36.5 million respectively.

### **PRODUCTION**

#### **Production facilities**



*Our production base in Jiangmen, PRC*

Our production and R&D facilities are located in Jiangmen, Guangdong in southern China. We believe that Jiangmen is a strategic location for us as it is connected to the rest of China by expressways, a seaport and four nearby airports, enabling us to have easy access to the rest of China as well as overseas markets. In addition, Jiangmen is also in close proximity to our suppliers, enabling us to react swiftly to customer demands for products, technology consulting services, and to minimise transportation costs and delivery time.

Before we moved to our current production facilities in Jiangmen, our production facility was located in Hong Kong, where we mainly provided contract manufacturing services to our customers. In 2006, we had subcontracted some of our orders to a contract manufacturer, an Independent Third Party and such subcontracting arrangement had ceased in October 2006. Owing to the gradual increase in our orders and as a way to expand our production lines, we relocated our production facilities from Hong Kong to Jiangmen.

Our main production facility in Jiangmen housed 32 high speed SMT lines and 70 wire bonding machines for COB/COF assembly as at the Latest Practicable Date. We own this production facility, which is located at the New Material Base in Gonghe Town, Heshan city, the PRC, and has a site area of approximately 125,000 sq.m. We also lease another nearby production site in Heshan city at Tiegang Industrial Zone, Gonghe Town, from an Independent Third Party, which has a total lease area of approximately 7,800 sq.m.

## **BUSINESS**

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In addition to our production base in Jiangmen, we also have sales offices in Hong Kong and Taiwan.

We have obtained TL9000/ISO9001:2000, ISO13485:2003, ISO/TS16949:2002, OHSAS18001:2007 and IECQ accreditations from SGS and IECQ for our products and management systems in Jiangmen. In addition, the clean-room facilities in our production lines are maintained at a class 10K ( $\geq 0.5$  micron), which is equivalent to ISO Class 7. Moreover, our Group was also received an ISO14001:2004 accreditation from SGS in November 2006 in respect of our environment management system and we have also been certified as a “Green partner” by two recognised bodies.

Although the ODMs/OEMs of consumer electronics and end-users in the touch product supply chain (i.e. consumer electronics brands) are not our direct customers contractually for touch pads, in order to ensure their specifications and expectations in our products are met, we work closely with them and have obtained qualification certifications from a range of ODMs/OEMs and consumer electronics brands which utilise touch products manufactured by us. “Qualification” is a process through which our Group’s touch products, production facilities and production staff are audited by the ODM/OEMs for notebook computers and consumer electronics and the supply chain end customers (i.e. consumer electronics brands) to ensure that their specific requirements of, inter alia, product specifications, work procedures, product quality, factory environment, inventory management and staff training are satisfied. Some ODM/OEMs and consumer electronics brands also carry out regular reviews and audits following initial qualifications.

Although during the Track Record Period, the production of capacitive touch pads for our major customer, Synaptics, remained our revenue driver and the bulk of our property, plant and equipment were committed to this purpose, most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry. As such, our Directors believe that our production facilities can be used interchangeably to produce other capacitive touch products and consumer electronics that involve assembly of ICs, connectors, capacitors, resistors and other similar electronics components. In the event that Synaptics reduces its sales orders in the future, we believe that our production facilities and equipment are capable of being used for the production of other capacitive touch products and electronic products for other customers. In relation to our production facilities, only minor adjustments, which include changing production and testing software, conveying tooling and final assembly processes, would be required to accommodate other specific requirements from other customers. These adjustments can be completed in-house within a reasonably short period of time and at nominal costs. With regard to our production staff, as most of our production process is automated, they are mainly responsible for loading and off-loading assembly units, transporting finished products and conducting visual inspections. As such, our production staff will only have to attend brief training sessions and be trained up within a reasonably short period of time at nominal costs.

### **Production processes**

Given the technical complexity of the nature of our business and to ensure compliance with the component functional specifications from our customers, our Directors believe that it is important that we are equipped with technologically advanced machinery and equipment for production. In this respect, we engage in surface mount technology (SMT) and chips on board (COB)/chips on flex (COF) production solutions to develop and manufacture capacitive touch products including touch pads, multi-media buttons and touch screens; whereas for our fingerprint biometric devices and wireless charging devices, we engage in SMT production solution only. We have deployed machinery imported worldwide for our various production processes, which includes wire bonding machines and SMT machines from Japan, and testers from the United States. Synaptics has



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specifically requested us to acquire certain testing equipment for the testing of our capacitive touch pads. The equipment is not tailored specifically for testing Synaptics’ products and in the event we were to cease our business relationship with Synaptics in the future, the testing equipment will remain our property with only minor adjustments over a reasonably short period of time being required to adjust the testing equipment for production of other products.



*Chip on Board (COB) operations*



*Surface Mount technology (SMT) operations*

Our annualised utilisation rates based on our two major categories of production lines, namely the SMT lines and the COB/COF lines, during the Track Record Period are summarised and set out as follows:

	<b>Approximate output for the year (in million units)</b>	<b>Estimated maximum output for the year (in million units)</b>	<b>Approximate utilisation rate for the year</b>
<b>SMT lines</b>			
Year ended 31 December 2007	66.0	113.6 <sup>1</sup>	58.1%
Year ended 31 December 2008	83.9	136.5 <sup>2</sup>	61.5%
Year ended 31 December 2009	91.3	183.4 <sup>3</sup>	49.8% <sup>4</sup>

*Notes:*

- 1 *The estimated maximum output in 2007 is calculated based on 17 SMT lines from January 2007 to August 2007, 18 SMT lines from September 2007 to December 2007, operated 21 hours per day and 26 days per month and operated at a speed of 1000 units on average per hour.*
- 2 *The estimated maximum output in 2008 is calculated based on 20 SMT lines from January 2008 to September 2008, 22 SMT lines in October 2008 and 24 SMT lines from November 2008 to December 2008, operated 21 hours per day and 26 days per month and operated at a speed of 1000 units on average per hour.*
- 3 *The estimated maximum output in 2009 is calculated based on 24 SMT lines in the first half of 2009 and 32 SMT lines in the second half of 2009, operated 21 hours per day and 26 days per month and operated at a speed of 1000 units on average per hour.*
- 4 *The relatively low utilisation rate for the year ended 31 December 2009 was mainly due to the additional 10 machines we purchased in the second half of 2009 in anticipation of the continuing increase in demand for capacitive touch products, as a result of which the additional SMT lines have not yet been fully utilised to their optimum capacities.*

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	Approximate actual output for the year <i>(in million units)</i>	Estimated maximum output for the year <i>(in million units)</i>	Approximate utilisation rate for the year
<b>COB/COF lines<sup>5</sup></b>			
Year ended 31 December 2007	39.1	59.8 <sup>6</sup>	65.4%
Year ended 31 December 2008	59.1	76.5 <sup>7</sup>	77.2%
Year ended 31 December 2009	69.1	102.2 <sup>8</sup>	67.6% <sup>9</sup>

*Notes:*

- 5 *There were five categories of machines in each production line, each category of machines operated at different speeds and capacities. For the purposes of calculating the estimated maximum output, we have taken the type of machine that took the longest production time in the COB/COF line for our calculations. The calculations are based on the assumption that the machines operated 21 hours per day and 26 days per month.*
- 6 *In 2007, the estimated maximum output is calculated based on 28 units of GT machines, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour from January 2007 to April 2007, 31 units of GT machine, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour from May 2007 to August 2007 and 43 units of wire bonding machines, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 240 units per hour from September 2007 to December 2007.*
- 7 *In 2008, the estimated maximum output is calculated based on 43 units of wire bonding machines, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 240 units per hour from January 2008 to June 2008, 36 units of GT machine, each operated at a speed of 290 units per hour in July 2008, 40 units of GT machine, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in August 2008, 43 units of GT machines, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in September 2008, 46 units of GT machines, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in October 2008, 51 units of GT machine, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in November 2008 and 54 units of GT oven, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 289 units per hour in December 2008.*
- 8 *In the year ended 31 December 2009, the estimated maximum output is calculated based on 54 units of GT ovens, being the machine that took the longest production time in the COB/COF line, each operated at a speed of 289 units per hour from January 2009 to December 2009.*
- 9 *The relatively low utilisation rate for the year ended 31 December 2009 was mainly due to the additional 10 machines to be used in the extra eight SMT lines we purchased in the second half of 2009 in anticipation of the continuing increase in demand of capacitive touch products, as a result of which the additional SMT lines have not yet been fully utilised to their optimum capacities.*

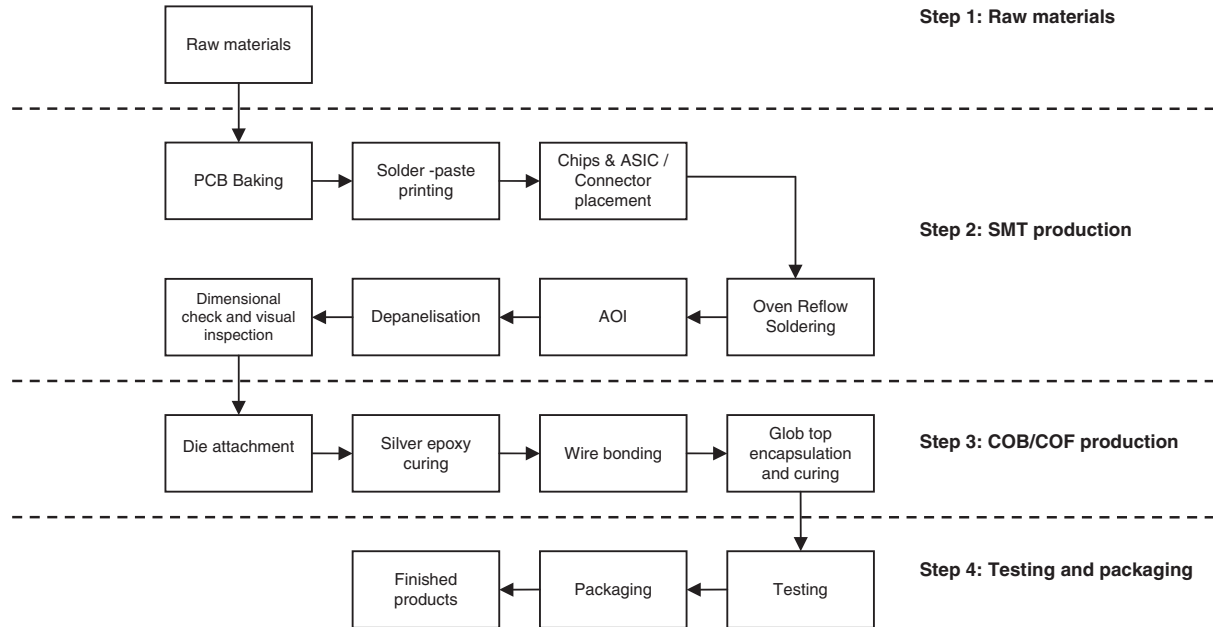
Whilst our production capabilities satisfied the relevant levels of demand during the Track Record Period, in anticipation of the continuing increase in demand of capacitive touch products, coupled with our plans to diversify our product mix to further expand our businesses of fingerprint biometric devices, lighting products and wireless charging devices, our Directors consider it necessary to equip our production plant with necessary equipment and upgrades to satisfy the large growth potential of these markets. In addition, the continued expansion and improvement of our production facilities will also allow us to cater for any sudden increases of product demand from our customers, which should help us maintain our long term relationships with such customers.

We are currently at the planning stage of constructing a third production facility. The proposed construction of our third production facility is subject to certain land issues which we were focused on over the Track Record Period. For details, please refer to the sections headed “Business – Property – Property under construction in the PRC” and “Risk Factors – Risks Relating to our Group – We have not obtained the necessary licences, permits and approvals for our properties under construction” in this document.

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**Capacitive Touch Products**

Below is a brief illustration of our typical manufacturing process of capacitive touch products:



**Step 1 – Raw materials**

The main component parts we purchase for production include: PCBs, capacitors connectors, mylars, diodes, flex cables magnets and ferrites. We source components both from local and overseas suppliers including the United States, Hong Kong and PRC manufacturers, some of which are designated suppliers of our customers. The manufacturing of touch products requires ICs and certain aspects of ICs are proprietary to the relevant IC suppliers. ICs from different IC suppliers are, although not perfect substitutes of each other, close substitutes and perform similar functions, are readily available for sale in the market. In respect of our capacitive touch products, we use components sourced from designated suppliers and we are also provided with, on a consignment basis, the ICs by our customer. The consigned ICs are purchased by Synaptics from its IC suppliers but the ICs are shipped to us directly for assembly. In the event that we were to produce touch pads to customers other than Synaptics, it is technically possible for us to source ICs independently from non-Synaptics sources.

**Step 2 – SMT production**

*PCB Baking*

After preliminary treatment of the PCB, the PCB is put into an oven for drying.

*Solder-paste printing*

The solder paste, a mixture of flux (a chemical cleansing agent which facilitates soldering) and tiny solder particles, is applied onto the PCB by an automatic printing machine.

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The thickness and viscosity of the solder paste is monitored by the testing equipment at this stage.

### *Chips & ASIC/Connector placement*

The components and parts are automatically delivered via paper or plastic belts, or in anti-electrostatic plastic tubes or trays, into automatic placement machines. These automatic placement machines are computer pre-set with data to place the components and parts onto designated positions on the PCB.

### *Oven Reflow soldering*

After Chips & ASIC/Connector placement, the PCB is transferred by conveyor belt to the reflow oven, in which separate compartments are set at the optimal temperature gradient designed to suit the physical properties of the components. The solder paste on the PCB is melted, of which surface tension of molten solder helps keep the components in place. The molten solder paste is then cooled to function as the conductive joints between the components and the PCB.

### *AOI*

After oven reflow soldering, AOI is conducted to check for any flaws in the position of any components, and to ensure the solder state conforms with the required standard. X-ray analysis may also be performed for components which require higher precision such as chip-scale packages and ball grid arrays. If any defect is discovered, the PCB will be sent for analysis and rework.

### *Depanelisation*

For manufacturing efficiency, the PCB products come in a panel form to reduce the loading and unloading time of the SMT machines. After the AOI process, the panel has to divide into individual units by a depanelisation process using either V-cut, punching or routing machines.

### *Dimensional check and visual inspection*

The PCB will then undergo dimensional check and visual inspection before final packaging. For our fingerprint biometric devices and wireless charging devices, the finished products will then be sent for various functional tests.

## **Step 3 – COB/COF production**

### *Die attachment*

The automatic die bonder will apply a thin layer of liquid epoxy on the PCB and a die is then picked up from a wafer and placed onto the PCB. The bonding line thickness will be monitored and controlled to ensure quality.

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### *Silver epoxy curing*

The PCBA is placed in an oven operating at elevated temperature to bake dry the epoxy and to adhere the die to the PCBA. The curing time and temperature are very important for the quality of the products.

### *Wire bonding*

It is a process of bonding the wire (aluminium) to the die and the PCBA pad via an ultrasonic method. The bond width, bonding length, loop height, bonding placement accuracy and the wire pull strength are closely monitored.

### *Glob top encapsulation and curing*

An epoxy is dispensed around the die and the bonded wire to seal it up, which protects the chip and wires from the environment and handling. The PCBA is placed in an oven operating at elevated temperature to bake dry and harden the epoxy. The curing time and temperature are very important for the quality of the products.

## **Step 4 – Testing and packaging**

### *Testing*

Before delivering the finished products to our customers, the PCBA is subjected to various functional tests such as:

- In-circuit test (the components values are checked)
- Functional test (the firmware / program are downloaded into the chip and some of the functions of the PCBA are tested)
- Application test (a functional test where the objective is to simulate the end user application usage)

All products that do not conform with our specific requirements are sent to our testing department for failure analysis, whereas each PCBA that passes the quality assurance and functional testing will be sent to the packaging department for packaging and shipment.

### *Fingerprint biometric devices and wireless charging devices*

We purchase the fingerprint sensors directly from one of our customers to whom we sell part of our fingerprint biometric devices for our fingerprint biometric device business. Similar to our capacitive touch products, in relation to our wireless charging devices we source components from designated suppliers and we are also provided with power adaptors, plastic casings and power kits by our customer.

Our fingerprint biometric devices and wireless charging devices undergo similar production processes as those set out above in respect of capacitive touch products, except for COB/COF

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production, which is not required in the production of fingerprint biometric devices and wireless charging devices. After completion of the SMT production process, our fingerprint biometric devices will go through various testings before they are packaged for shipment and our wireless charging devices will go through the assembly of the PCBs to the plastic housings. Such products will then undergo various testings before they are packaged into finished products.

### *Plasma street lamps*

The production process for our plasma street lamps will first go through the SMT production procedure similar to that in the production of capacitive touch products. After SMT assembly, the production of plasma street lamps will go through three different processes:

1. Assembling the drivers: the finished PCBs will go through a driver characterisation test which involves putting the finished PCBs into a driver case purchased from a third party. Together, this is then assembled with an amplifier before it is inspected by the quality testing department.
2. Assembling the RF cables: RF cables are assembled to the customer’s specific requirements before it goes through a visual testing process for connectivity.
3. Light source emitter assembly: the emitter is put into a bulb fixture.

After the three procedures are completed, there is a final assembly process which involves connecting the finished driver and light source emitter with the RF cable.

## **RESEARCH AND DEVELOPMENT**

We started our business as a contract manufacturing services provider of primarily touch pads utilising the intellectual property, underlying patents and technologies licensed from our customers. As technology and market expectations have changed, we aim to differentiate ourselves from other traditional manufacturers and we have progressed further in developing our own R&D capabilities and devoting additional resources in technological advancement. In the year ended 31 December 2008, our R&D team has achieved technological breakthroughs in developing various new fingerprint applications and standalone product designs by combining touch and fingerprint biometric devices.

Our Directors strongly believe that developing strong research and development capabilities and experience are critical to maintaining our competitiveness in the ever-advancing consumer electronics market. Hence, in addition to manufacturing capacitive touch products, we have focused on our research and development in recent years, in which we aim to provide high quality production methods by formulating improvements to the production process and product quality, developing new production technologies and product types, as well as developing our own intellectual property.

Our R&D team is responsible for exploring and evaluating potential new products to be developed and manufactured by us. In the course of its evaluation of potential new products, the team takes into account various factors, including whether a potential new product constitutes a synergy match with our existing technology. As part of our strategy, normally we would only develop products to which we are capable of adding value by utilising our SMT/COB experience and our in house R&D capabilities. This allows us to develop and maintain long term relationships with

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our customers. Prior to diversifying into a new product, we would engage in a design-win process with relevant customers. During the course of this process, our customers would work closely with us to ensure that we can satisfy their design specifications and that our production facilities and capability fulfills requisite requirements. This design-win process would typically take at least six months. It is only upon due completion of such design-win process that mass production of a certain product would commence. This process reflects the level of commitment of customers to our products and the expected demand.

As at the Latest Practicable Date, our R&D team comprised 45 skilled and experienced core employees and 334 R&D related engineers who were principally engaged in research and development for us covering electronics, software and mechanical engineering, product industrial design and intellectual property development. Eight employees from our R&D team have obtained masters degrees and 15 of our team members have obtained bachelor degrees or other advanced degrees.

During the Track Record Period, our research and development expenses and capitalised development costs, trademarks and patents fees amounted to approximately HK\$9.7 million, HK\$12.2 million and HK\$22.3 million respectively, representing approximately 1.4%, 1.6% and 2.5% of our total revenue respectively.

Our R&D team has obtained various recognitions of their strength in the field. We have been awarded the Innovation Knowledge Enterprise Award organised by the Hong Kong Productivity Council, and we received the award at the award presentation held in December 2009, which recognises our successful implementation of intellectual properties. In August 2009, our G3 fingerprint sensor mouse won the internationally regarded International Forum Design Award.

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During the Track Record Period, most of our R&D projects were inter-related and shared identical or similar technologies and know-how in the initial stage, and would often involve the same group of personnel and some equipment. We had completed the following R&D projects during the Track Record Period:

<b>Product categories</b>	<b>R&amp;D projects</b>	<b>Designed technological specifications</b>
<b>Capacitive touch products</b>	<ul style="list-style-type: none"><li>● Multi-media buttons</li></ul>	<ul style="list-style-type: none"><li>● A capacitive touch button from a single power button to more than eight multi-buttons, transparent button and sliders. The touch buttons can be applied to computers, computer accessories and other electronic and electrical appliances.</li></ul>
<b>Fingerprint biometric products</b>	<ul style="list-style-type: none"><li>● USB fingerprint Dongle</li><li>● SecuMemory™</li><li>● Fingerprint mouse</li></ul>	<ul style="list-style-type: none"><li>● A USB drive which enables users to store login details to windows systems, certain websites or set up encrypted files and folders. It also enables users to encrypt and allow personal access to different people’s files as well as allowing various fingers to be used amongst other settings.</li><li>● A storage device which enables users to protect personal data and sensitive information with a fingerprint sensor installed for fingerprint authentication.</li><li>● A USB mouse which features a fingerprint sensor for windows system login, file encryption and screen saver unlock.</li></ul>



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<b>Product categories</b>	<b>R&amp;D projects</b>	<b>Designed technological specifications</b>
	<ul style="list-style-type: none"><li>● Fingerprint keyboard with Multi-media buttons</li></ul>	<ul style="list-style-type: none"><li>● A computer keyboard with fingerprint sensor installed and equipped with state-of-the-art touch buttons, in which it enables users to gain access to confidential files by swiping a finger rather than the conventional typing of passwords in other applications.</li></ul>
	<ul style="list-style-type: none"><li>● SecuButton™</li></ul>	<ul style="list-style-type: none"><li>● An application which combines touch sensing and fingerprint imaging technology to provide computer security control by one “swipe”, which we believe to be the first and unique in fingerprint biometrics market.</li></ul>
	<ul style="list-style-type: none"><li>● Touch and Lock technology</li></ul>	<ul style="list-style-type: none"><li>● A technology that enables users to lock computer screens with one tap and unlock the screens by swiping the finger that matches the fingerprint of authorised users.</li></ul>
	<ul style="list-style-type: none"><li>● Multi-Touch Lock</li></ul>	<ul style="list-style-type: none"><li>● A technology that enables users to switch from one screen to another by tapping the fingerprint sensor for two seconds.</li></ul>
	<ul style="list-style-type: none"><li>● SecuFile™</li></ul>	<ul style="list-style-type: none"><li>● A technology that enables users to protect specific folders and files in the computer by fingerprint identification.</li></ul>
	<ul style="list-style-type: none"><li>● SpinMotion™</li></ul>	<ul style="list-style-type: none"><li>● A technology that enables users to navigate with fingerprint motion and to perform tasks using finger motions.</li></ul>

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<b>Product categories</b>	<b>R&amp;D projects</b>	<b>Designed technological specifications</b>
<b>Wireless charging devices</b>	<ul style="list-style-type: none"> <li>● Wireless charging devices</li> </ul>	<ul style="list-style-type: none"> <li>● A technology that enables users to charge the battery of up to three mobile devices at the same time using the power receiver and power transmitter.</li> </ul>

Furthermore, we are also in the process of developing the following research projects:

<b>Product categories</b>	<b>R&amp;D projects</b>	<b>Designed technological specifications</b>
<b>Capacitive touch products</b>	<ul style="list-style-type: none"> <li>● Lens and lamination</li> </ul>	<ul style="list-style-type: none"> <li>● A PET-to-glass lamination process that produces a touch screen surface on top of a LCD/LED display surface.</li> </ul>
<b>Fingerprint biometric devices</b>	<ul style="list-style-type: none"> <li>● DuoSecu™</li> </ul>	<ul style="list-style-type: none"> <li>● A technology that enables users to register a finger with a long password to a maximum of 16 characters, in which the long password can be used for login by simply swiping the finger across the fingerprint sensor.</li> </ul>
<b>eCardFlex™</b>	<ul style="list-style-type: none"> <li>● QuickCrypt™</li> </ul>	<ul style="list-style-type: none"> <li>● A technology which encrypts protected data.</li> </ul>
<b>eCardFlex™</b>	<ul style="list-style-type: none"> <li>● ATM/credit cards</li> </ul>	<ul style="list-style-type: none"> <li>● Bank ATM/credit card with fingerprint sensor and SecuButton™ inbuilt to enhance transaction security.</li> </ul>
<b>Lighting source</b>	<ul style="list-style-type: none"> <li>● Street plasma light</li> </ul>	<ul style="list-style-type: none"> <li>● Street lighting which involves a high and reliable plasma light source, with less power consumption than conventional street lighting.</li> </ul>
<b>Lighting source</b>	<ul style="list-style-type: none"> <li>● Plasma light bulbs</li> </ul>	<ul style="list-style-type: none"> <li>● A light bulb that produces bright plasma light.</li> </ul>
<b>Live sensation products</b>	<ul style="list-style-type: none"> <li>● Live sensation device</li> </ul>	<ul style="list-style-type: none"> <li>● A life-style product combining the concepts of sound, smell and lighting.</li> </ul>

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<b>Product categories</b>	<b>R&amp;D projects</b>	<b>Designed technological specifications</b>
<b>Wireless charging devices</b>	<ul style="list-style-type: none"><li>● Portable wireless charging device</li></ul>	<ul style="list-style-type: none"><li>● A technology of electricity charging without cables or device specific adaptors, in which electricity can be stored into the device for portable use that it can be used in a variety of electronic devices including mobile phones and MP3 players without connected to any power cable.</li></ul>

The majority of these designs, technologies and applications have been filed for design and/or patent registrations in Hong Kong, the PRC and the U.S. During the period from October 2008 to April 2010, we were granted 16 patents and designs and further applied for 46 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States.

In order to maintain competitiveness in the industry, we believe that our research and development capability is crucial. As part of our overall long-term development plan, we have established Shining Union to consolidate our research and development efforts in addition to the other key function of coordinating our IP matters. We have been providing one of our customers with the use of our R&D facilities to house such customer’s design and engineering teams on site and we plan to extend such services to our other customers and strategic partners after completion of our new R&D centre.

One of our principal objectives in relation to research and development activities is to further enhance our Group’s product range, including co-operation with certain key customers in developing or modifying new products and providing technical solutions. In order to monitor the application of our intellectual property rights and to perform R&D planning, we have established a strategic intellectual property and technology committee in November 2009.

In addition to our in-house strengths in R&D and our partnership with customers, we also involve external R&D resources from tertiary institutions to further strengthen our R&D capability. Through our collaboration with universities, our R&D personnel are able to acquire from professors and academic staff the latest academic and industrial know-how related to our business. In addition to academic institutions, we are also in partnership with a semi-conductor design company to develop IC for our products.

### **Research project with Hong Kong Baptist University**

We provided research funds for a research project and entered into a collaboration with Hong Kong Baptist University in February 2009 to develop software for use in our fingerprint biometric devices. This research project was completed in July 2009 and the software developed in this research project includes a DSP algorithm for finger gesture detection, a concept which we call SpinMotion™ that can recognise human gestures and finger motions, hence enabling the navigation and performance of tasks on PC screens. The total costs for this research project amounted to HK\$0.1 million which was provided by us from our internal resources. Our Company shall solely own the design and trade secrets resulting from the research project. Hong Kong Baptist University

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retains the right to use the software developed by the research projects for academic purposes but has no other right to use, sell or produce the software without our prior written consent. Our R&D personnel communicate regularly with the academic staff from the university to exchange information and receive updates on the progress of the research after the completion of the project.

Hong Kong Baptist University, our research partner in this project, presented our research findings to one of the workshops in the ACM International Conference, which was held in October 2009 in Beijing. This research project was also published as one of the articles in the workshop materials.

### **The Discharge Bulb Research Project with Wuyi University, Jiangmen (江門五邑大學)**

We believe the engineering of the gas in the light bulb and its material content is critical to determine the strength of brightness and quality in colour for a plasma lamp bulb. In June 2009, we entered into a collaboration research project with Wuyi University, Jiangmen to formulate the content for plasma lamp bulbs and the project has reached the product design stage. In this project, our R&D team cooperates and collaborates with Wuyi University’s physics researchers, who offer their know-how and technology in conducting a series of testing and experimentation, with the aim of developing a production-viable light bulb that is both of high quality and cost-efficient. Our Company shall own all research results of the project and all intellectual property rights developed from the research project. Wuyi University, without our Company’s prior consent, cannot conduct or permit any production, use or sale of the research results. The research funds for this project amounts to RMB90,000 which are provided by us and the first payment of RMB36,000 has been made. Our R&D personnel meet regularly with the academic staff from the university to exchange information and receive updates on the progress of the research. The end-product of this collaboration will be for our sole use. We expect to complete this research project with Wuyi University in the third quarter of year 2010.

Though we have yet to generate any revenue from the products benefiting from the said two research projects with the universities, such research projects provided opportunities for our Group to experiment with the development of products with academic institutions.

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### **INTELLECTUAL PROPERTY AND KNOW-HOW**

In line with the practice of the manufacturing service industry, that manufacturing services providers share the intellectual property rights of their customers in the process of providing manufacturing services, we have licensing arrangements with our customers for the use of their intellectual property rights and technologies, including our non-exclusive, non-transferable and royalty-free license agreement with Synaptics. Although we do not own those necessary intellectual property rights and do not possess the details and technicalities of our customers’ intellectual property rights for the production of our touch pads, fingerprint biometric devices, wireless charging devices and plasma lighting products (given that our customers provide us with proprietary ICs, specifications, drawings, toolings, software, other components and work instructions for our manufacturing process), we aim to distinguish ourselves from other contract manufacturers by applying our production know-how and industry experience. In particular, we believe that our proven record of experience and specific industry know-how in manufacturing and assembling touch pads which we have accumulated over the past 10 years is the main contributing factor for our quality and cost competitiveness. We regard the following main production know-how as contributing to our success:

<b>Production Know-how</b>	<b>Specialty/experience</b>
Controlled manufacturing environment	Control and maintain the physical conditions of the production lines at set humidity and static electricity to ensure precision and proper functioning of our products
Product fitness	Control the size, flatness, thickness and cleanliness of the product during manufacturing in the production lines
Bar code traceability system	On-line real time tracking of raw materials, orders and inventories by customers and facilitation of cost control

Further details of our intellectual property rights are set out under the section headed “Further information about our business – Intellectual property rights of our Group” in Appendix VI in this document.

As at the Latest Practicable Date, we are not aware of our business and operations having infringed any third parties’ intellectual property rights during the Track Record Period nor are we aware of any third party infringement of our intellectual property rights (registered or in application) during the Track Record Period.

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### AWARDS AND ACCREDITATIONS

The following table sets out some of the awards and accreditations received by our Group during the Track Record Period:

Award/accreditation	Awarding entity	Time of grant
Innovation Knowledge Enterprise Award <i>(for successful implementation of intellectual property management)</i>	Hong Kong Productivity Council	2009
International Forum Design award <i>(a design award for our G3 mouse)</i>	International Forum	2009
2008 Best Supplier Award	Synaptics	2008
Quality Supplier of the Year	Luxim	2007
Certificate of Hi-tech Enterprise (高新技術企業認定證書)	Science and Technology Bureau of Guangdong Province of the PRC (廣東省科學技術廳)	2007

### QUALITY CONTROL

In 2008, we were awarded the 2008 Best Supplier Award by Synaptics, in recognition of the excellent quality of our products. In the year 2007/2008, we were also awarded the Quality Supplier of the Year award by Luxim, in recognition of our excellent support in providing quality products.

We believe that high quality standards are crucial to our success. In order to maintain high quality standards, we believe it is not sufficient to merely rely on inspections for defects in final products. Instead, quality should be assured from the pre-production stage and should continue throughout the production process so that issues can be identified and addressed as early as possible. Our quality control procedures are carried out throughout our operations from the sourcing of raw materials, through each stage of production, the delivery of final products up to post-sales quality control. Specific work instructions and procedures are in place to guide our workers. We also provide employees with induction and ongoing training regarding the level of quality expected.

To further enhance customer confidence in our Group's production skills and to monitor product quality, our facilities are assessed annually for their compliance with the quality assurance standards. We have established and implemented a sophisticated quality control system which has obtained ISO 9001:2008, ISO13485:2003, ISO/TS16949:2002, OHSAS18001:2007, TL9000/ISO9001:2000 and IECQ accreditations from SGS and IECQ in respect of our various products and management systems. In addition, the clean-room facilities in our production lines are maintained at Class 10K ( $\geq 0.5$  micron), which is equivalent to ISO Class 7. For 2009, based on our customer's feedback, our SMT outgoing quality level ranges at an average from 50 to 200 dppm and the average products workmanship RMA level is less than 200ppm.

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In recognition of our quality management and environmental management systems, during the Track Record Period, we have obtained various certifications from independent certification bodies, as summarised in the table below:

<b>Title of certification</b>	<b>Certification Body</b>	<b>Expiry Date</b>
ISO9001:2008 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	5 June 2010 <sup>Note 1</sup>
ISO14001:2004 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	24 November 2012
OHSAS18001:2007 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	19 November 2012
TL9000/ISO9001:2000 <i>(For the manufacture of PCBA)</i>	SGS	19 November 2010
ISO13485:2003 <i>(For the manufacture of PCBA for medical device)</i>	SGS	19 January 2012
ISO/TS16949:2002 <i>(For the manufacture of PCBA for automotive wireless communication)</i>	SGS	24 May 2012
IECQ Certificate of Hazardous Substance Process Management applicable to the European Directive 2002/95/EC (“RoHS”) Requirements <i>(For the manufacture of PCB touch pads and PCBA)</i>	IECQ	14 October 2010

*Note:*

(1) As at the Latest Practicable Date, our Company was in the process of renewing the ISO9001:2008 certification and the renewal process is currently expected to be completed by the third quarter of 2010.

As at the Latest Practicable Date, we had a quality control team of 120 full time staff and 474 inspectors, who are responsible for the implementation of our quality control policy.

Both we and our customers place significant emphasis on product quality. We believe that the highest quality of products can be achieved by close ties and co-operation with our customers. We conduct periodic quality reviews with our customers in respect of the quality of raw materials used and finished products produced. In order to fulfil the requirements of our customers, we have, during the Track Record Period, allowed one of our customers to assign quality assurance teams on-site in our production facilities to perform quality control procedures to ensure that our products’ quality meets their requirements. We arranged for their personnel to be on-site to carry out daily quality checks on our production process. We also conduct our own internal audits to verify acceptable quality control, raw material management, production management and delivery management.

Our quality department is equipped with the testing machines to perform reliability tests on our products according to our customer’s specific requirements including:

- Temperature cycle test;
- Storage test;

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- High humidity test;
- Tapping test;
- Rubbing or abrasion test; and
- Packaging drop test and vibration test.

Similar to defective products that fail the functional tests, products that do not conform with our specific requirements are sent to the testing department for failure analysis and detailed reports of non conformities are produced for ongoing manufacturing reference.

We have obtained CE and FCC certifications for certain of our fingerprint biometric products and have been awarded with certificates of compliance from international conformity assessment authorities. We believe that our stringent quality control procedures contribute to the overall low defect rate of our products. During the Track Record Period, no liabilities resulting from any sales of defective products were identified.

## **INFORMATION TECHNOLOGY**

The following are the main information technology systems we use in our operations:

### **BAAN ERP system**

We are a licensed user of BAAN ERP, an ERP platform that is used by companies worldwide, which forms the backbone of our enterprise IT infrastructure. We use the BAAN ERP system for general financial functions (including general ledger, accounts receivables, accounts payables and cash management), taxation, order management, procurement, sales, central invoicing, manufacturing and warehousing management.

The system covers tasks ranging from managing day-to-day financial needs such as issuing purchasing orders, generation of invoices, cash management, order receiving, material procurement, generation of material requirement plans and the master production schedules, to warehouse operations for raw materials, work-in-progress and finished goods.

### **Barcode and Valor’s vManage System**

At the start of our production line, each PCB will be adhered with either one-dimensional or two-dimensional barcode tapes with a unique 13-16 digit identification barcode for identification purposes. The barcode remains on the PCB along the production process, with each product being scanned as it passes on to subsequent stages in the production process. This enables the engineering team and the program management team to trace the products and monitor the progress of the production process through the real-time machine performance monitors.



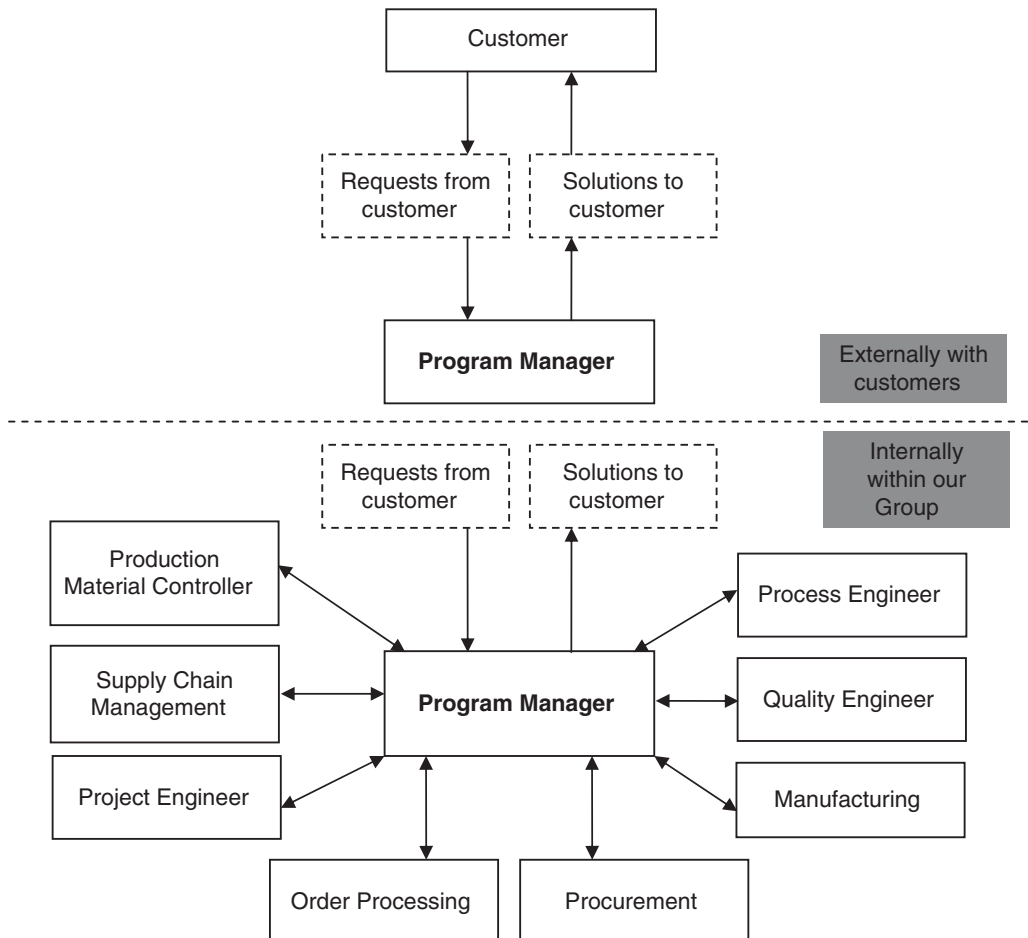
**BUSINESS**

**i-Manufacturing**

Our i-Manufacturing system makes use of a web portal that coordinates our BAAN ERP system and Valor vManage system with our internal systems. We are in the process of developing the i-Manufacturing system and upon full implementation of the i-Manufacturing system our customers will be able to place specific orders, gain access to just-in-time production and shipment information for their products and trace their product using any personal computer on the internet. We also plan to integrate RFID technology with our customer’s traceability systems to allow automatic and real-time identification of products for our customers.

**PROGRAM MANAGEMENT TEAM**

Customer feedback contributes to our development work and has led to improvements in the quality of our products. In order to provide our customers with better services and to enhance communication, we have a dedicated program management team that acts as the first and primary window of contact with customers. Each customer is assigned to a program manager who regularly communicates with the relevant customer and closely monitors product planning, manufacturing, testing and quality control in relation to such customer’s products. The program manager also acts as a coordinator between the relevant customer and our different departments on project development, manufacturing process approvals and process enhancement.



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### **SUPPLIERS AND RAW MATERIALS**

Depending on the product designs and specific requirements of our customers, we source components for our production from suppliers in China, Hong Kong and Taiwan. Our raw materials are fundamentally the same for the production of both capacitive touch products and fingerprint biometric devices, which include ICs, PCBs, capacitors, connectors, adhesives, mylar, diodes, flex cables, chip cap, chip resistors, bonding wire and solder paste. The key materials used in the production of our wireless charging devices include PCBs, capacitors, connectors, ferrites, magnets, power adaptors, power kits and plastic casings.

Our procurement team purchases the types and quantities of raw materials in accordance with specific requirements of our customers, having also consulted our engineering department, program management department and production department. Furthermore, our OEM customers often designate suppliers who are chosen from the approved vendor lists. Generally, we do not consider ourselves to be dependent on any one supplier for any of the above materials since most of the principal components are available from a large number of suppliers in the open market.

We have entered into long-term supply agreements with our major suppliers for the supply of PCBs, mylars and adhesives. The terms of these long-term supply agreements are similar in nature and generally include: a term of five years, with a right to renew (subject to a mutual right to terminate the agreement upon 120 days’ prior written notice); guaranteed lowest possible price to be charged by the supplier and the right for us to cancel any portion of the materials ordered upon 14 days’ prior notice to the supplier.

In relation to our touch products assembled for Synaptics, in line with usual industry practice for manufacturing services providers to share and utilise intellectual property rights of their customers in providing manufacturing services, we have a non-exclusive, non-transferable and royalty-free licence agreement with Synaptics authorising us to utilise its proprietary ICs, designs, drawings, specifications and software which incorporate its intellectual property rights solely for use in the production and testing of its touch products. We are required to use consigned ICs (which this customer purchases from and pays its IC suppliers but the ICs are shipped directly to us for assembly).

Although we currently do not have a formal long-term supply agreement with Synaptics, it is our practice not to provide similar services to its competitors. However, if we were to technically produce touch pads for other customers, our Directors believe that we could procure the requisite ICs and other key components of touch pads from alternative sources and apply our production know-how and track record experience acquired over the years from the manufacturing of touch pads. We could also utilise our existing production facilities, machinery and personnel and therefore, we believe we are technically capable of producing touch pads for notebook computers for other customers. Nevertheless, should we cease to produce touch pads for Synaptics, a global touch pad leader, and if we cannot secure orders from other clients, there may be a material adverse impact on our market position and financial conditions.

In relation to our fingerprint biometric devices, we purchase the fingerprint sensors directly from one of our customers to whom we sell part of our fingerprint biometric devices. In respect of our contract manufacturing services for automotive devices, we are provided with consigned ICs. For our production of wireless charging devices in the Track Record Period, we were also consigned

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with the necessary components by our customer. We have not experienced any difficulties in obtaining supplies of components since we commenced operations.

Our five largest suppliers in aggregate accounted for approximately 60.0%, 64.9% and 47.1% of our total purchases during the Track Record Period, supplying PCBs, connectors, mylars and labels, whilst our largest supplier, which supplies PCBs, accounted for approximately 23.8%, 31.0% and 16.7% of our total purchases respectively during the same period.

### **INVENTORY CONTROL**

Our inventories mainly comprise of raw materials, work in progress and finished goods for temporary storage prior to delivery to customers. Our internal control policy aims to maintain sufficient inventory levels for our production, including a just-in-time policy for key components (e.g. ICs, PCBs, connectors, mylar and solder paste), in which they are delivered to the production facility shortly before use. Our program management team provides our procurement and inventory control team with weekly forecasts of orders for planning and monitoring inventory control. We also utilise BAAN ERP, Barcode and Valor’s vManage system to monitor the level of our inventory. For details of these monitoring systems, please refer to the section headed “Business – Information Technology” above in this section.

For the Track Record Period, our inventory, comprising raw materials, components and finished goods for temporary storage prior to delivery to customers, amounted to approximately HK\$44.4 million, HK\$32.9 million and HK\$105.7 million respectively; whereas the inventory turnover (being the average of the beginning and ending balance of inventory divided by cost of sales and multiplied by the number of days during the year/period) during the same period was approximately 30 days, 24 days and 40 days respectively.

### **SALES AND BUSINESS DEVELOPMENT**

#### **Overview**

The functions of our business development and sales and marketing are shared between our business development team and program management team. Our business development team is mainly responsible for market researching, forecasting market demands, sourcing new customers, visiting new customers, entering into contracts with customers, organising promotional activities and approving product samples. Once production has commenced for the relevant customer, our program management team will be involved, being mainly responsible for maintaining ongoing contacts with the designated customer in respect of production and materials requirements.

We aim to develop long-term relationships with our customers. Our business development team and program management team work together to arrange regular visits to our customers. Although ODMs/OEMs of notebook computers and the end customers of the touch pad supply chain (i.e. consumer electronics brands) are not our direct customers contractually, in order to ensure that their

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specifications and expectations are met, we work closely with these industry players in qualification process and regular audits. Through such contact, we have been able to establish long term relationships directly with them and provide them touch pads which satisfy their specific requirements.

During the Track Record Period, we adopted a customer-oriented approach towards our customers. We provided on-site space and facilities to the personnel of one of our customers in both our production base in Jiangmen and our office in Hong Kong to conduct product reliability testing so as to increase communication and to strengthen our relationship with this customer.

### **Sales channels**

We have three business development teams in each of Jiangmen, Hong Kong and Taiwan, comprising sales and marketing professionals. The teams are assigned to serve customers in different geographical locations. Our sales team in Taiwan is mainly responsible for serving and developing customers in fingerprint biometrics in the market of Taiwan whilst our Jiangmen and Hong Kong sales teams focus on other customers worldwide.

Our key sales channels are through distributors and design houses of consumer electronic products.

### **Marketing**

From time to time, we participate in electronics material-related exhibitions and international trade fairs, such as Electronica and China Sourcing Fair (Electronics & Components). Our marketing activities are geared towards keeping abreast of industry trends, interacting with existing customers, cultivating new relationships and building brand awareness. More importantly, however, our primary marketing efforts are spent on visiting and managing the needs of existing customers in order to maintain customer relationships.

### **Pricing policy**

All sales are conducted on the basis of purchase orders. Prices for purchase orders are negotiated on a case-by-case basis with each customer. Our Group typically enters only into short-term purchase orders with customers. The selling price of our products is determined based on a number of factors including: (i) technical features and complexity of the product; (ii) production costs (including costs of raw materials); (iii) production cycle; and (iv) the market demand and potential sales of such product. We adjust the price of our products according to the variations in the prices of the raw materials.

We believe that our products are generally priced competitively, though we do not consider pricing to be the only factor which our customers consider when making purchases from us as we also participate in our customers' product design and development phases and customise their products to satisfy their specifications.

### **Customers**

During the Track Record Period, the sales of touch pads and other products to our largest customer, Synaptics, accounted for 93.4%, 98.9% and 79.4%, respectively, of our total revenue. For

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the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. We have established a long-term business relationship lasting over 10 years with this customer. Save and except for this long term ongoing business relationship between this customer and our Group, this customer has no other past or present relationship (business or otherwise) with our Group, our Shareholders, Directors, members of our senior management and their respective associates.

Synaptics is a global leader in capacitive touch pads for notebook computers. It is listed on the NASDAQ in the United States. The business of this customer involves developing and supplying custom-designed human interface solutions, targeting the PC and digital lifestyle products (including mobile smartphones, feature phones and portable digital music and video players) markets. Its main products include touch pads, touch buttons, clear pads and clear buttons, and it supplies industry leading manufacturers of notebook computers and consumer electronics.

It is our practice that we will not provide similar services to Synaptics’ direct competitors, though in the event that we were to cease our business relationship with Synaptics, we are free to solicit business from its competitors. Further details are set forth in the section headed “Relationship with Synaptics” in this document.

For our wireless charging business segment, during the Track Record Period, we sold all our wireless charging devices to a single customer, HoMedics Group. HoMedics Group is a group of companies primarily based in the United States, which engages in the sales of health and wellness products, which include massagers, diagnostic healthcare products, sensory and relaxation products and other home environment products. These products are distributed to various retailers around the world in Europe, Australia and South America. HoMedics Group has established a joint venture with an affiliate of PowerMat Ltd., an Israel / U.S. based company, to develop, market and distribute wireless charging devices. It has engaged our Group to jointly develop wireless charging devices. Our wireless charging devices are shipped to HoMedics Group for distribution. We have not entered into any long-term agreement with HoMedics Group or PowerMat Ltd.

Our five largest customers during the Track Record Period accounted for 99.7%, 99.8% and 97.8% respectively, of our total revenue. None of our Directors or their associates has any interest in any of our five largest customers.

Our business spans across a wide geographical scope as our end-users are located at different parts of the world, including Asia, Europe and the U.S.

During the Track Record Period, we experienced some cancellation and delay of orders from our customers.

### **Credit terms**

Subject to the credit risk of specific customers and prevailing trading conditions, we grant credit term from 30 days up to 90 days to the majority of our customers. Most of our new customers are required to settle their first orders with us by letters of credit. Trade credit terms, such as credit amounts and the length of payment, are determined by taking into account factors such as a customer’s payment history and length of relationship with us.

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We made provisions for impairment of trade receivables of approximately HK\$0.2 million, nil and nil respectively during each of the Track Record Period.

### **COMPETITION**

#### **Touch pad**

According to iSuppli Touch Report, the market for mobile computing devices such as notebook computers, MP3 players and smart phones is expected to expand due to the increase in the popularity of mobile computing. As a result, the market for capacitive touch pads, which are found in essentially all notebook computers, is also expected to grow in the coming five years. It is expected the worldwide touch pads revenues will increase from US\$537 million in 2009 to US\$983 million in 2013, which represents a CAGR of 16.3% in value.

Our Group’s competitors include (i) a NASDAQ listed company which provides electronics manufacturing services to original equipment manufacturers, which also provides design resources to end-to-end vertically integrated global supply chain services, including packaging and transportation worldwide; (ii) a Thailand listed company which is a contract manufacturer with its production bases in Thailand and engaged in the provision of various assembly services in the electronics industries which includes PCBA, COB and IC assembly; and (iii) a Thailand company which provides electronics manufacturing services in microelectronics module assembly (including PCBA, testing and box build assembly) and IC packaging and exclusive line assembly.

Capacitive touch technology is subject to registered patents and accordingly, the use of such technology in the touch pad industry is restricted to the patent owner, its licensees or other authorised persons. We have arrangements in place with our customer for the use of the patented technologies, intellectual property right and patented components including the IC containing the relevant technology on a consigned basis. Our Directors believe that our relationship, together with our technological know-how and the extensive capital investment required for building up our production facilities, has given us a competitive advantage over our direct competitors in attracting direct orders from our ultimate customers and enables us to enjoy a higher profit margin in the future.

For further details on the risks of the competition that we face, please refer to the sections headed “Risk Factors – Risks Relating to Our Group – We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results”, “Risk Factors – Risks Relating to our Group – Our products contain components or otherwise involve registered patents not owned by us”, “Risk Factors – Risks Relating to our Group – Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights” and “Risk Factors – Risks Relating to Our Group – Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable” in this document.

#### **Fingerprint biometric sensor**

According to iSuppli Touch Report, the market for fingerprint sensors in notebook computers is steadily expanding through technology improvements, user awareness, and declining price. It is expected that the market is growing and will be expanded from approximately 7.3 million units in 2009 to approximately 25.7 million units in 2013.

Despite the fact that we only commenced commercialisation and distribution of fingerprint biometric devices in July 2008, our Directors believe our technological know-how we accumulated

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from the SMT and COB production, registered patents, expertise and resources for production, marketing of fingerprint biometric devices and our established relationships with our customers gives us the ability to compete effectively with other major fingerprint biometric devices manufacturers in the future.

### Wireless charging

According to iSuppli Corporation, 2010 will be the real birth of wireless charging with meaningful shipment volume. The market for wireless charging is expected to experience a steep growth for the next five years, with an emphasis in mobile phone application. iSuppli Corporation estimates that the wireless charging market for mobile phones will grow from 9.2 million units of shipment in 2010 to 293.0 million units in 2013, representing a CAGR of 217.0%, whilst the wireless charging market for PMP / MP3 players is expected to grow from 0.5 million units of shipment in 2009 to 19.5 million units of shipment in 2013, at a CAGR of 239.1%.

The interoperable nature of the wireless charging industry means that the industry is very fragmented and different companies have different implementations to the same core technology. However, our Directors consider this problem to be short term as iSuppli Corporation believes that an open, standardised system will prompt leading OEMs to join forces and enhance consumer awareness and adoption in all markets. Our Directors believe that the projected steep growth of the wireless charging market, coupled with our business relationship and co-development arrangement with PowerMat Ltd., who, according to iSuppli Corporation, is expected to hold 63.3% of the market share based on its target of one million shipment units in 2009, will enable our Company to be competitive, and enable sustained development, in this industry sector.

Please also refer to our competitive strengths as set forth in the section headed “Competitive Strengths” above for more details of our competitiveness in the industry.

### EMPLOYEES AND EMPLOYEE BENEFITS

As of the Latest Practicable Date, we had 5,933 full-time employees. The following table sets forth the number of our full-time employees by function:

	No. of employees	% of total
Production	4,239	71%
Quality control	594	10%
Research and development, testing and engineering	379	7%
General and administration	527	9%
Sales and marketing	56	1%
Procurement and warehouse	138	2%
Total	5,933	100%

In order to improve our productivity and further enhance the quality of our workforce, we have implemented induction and continuing education and training programs for our staff. In relation to positions which require special skills and professional qualifications, we require relevant employees to attend special training sessions. Newly recruited employees are required to attend an induction course, which covers topics such as our production flow, disciplinary training, working schedule, quality standards and production safety.

During the Track Record Period, our costs incurred on employee benefits were approximately HK\$75.8 million, HK\$98.1 million and HK\$119.1 million respectively, representing approximately 11.2%, 13.1% and 13.4% respectively of our revenue.

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We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety at the workplace and grounds for termination. In accordance with the applicable PRC laws and regulations, we contribute to social security funds, including pension funds, work-related injury funds and unemployment insurance funds for our employees in the PRC. In addition, we also provide childbearing insurance for our female employees. Our PRC legal advisers have confirmed that we have complied with the relevant staff social security related PRC laws and regulations, except for such laws and regulations in respect of medical insurance funds and housing provident funds, which is discussed under the section headed “Risk Factors – We have not made mandatory contributions to medical insurance funds and housing provident funds prior to September 2009” and “Directors, Senior Management and Employees – Staff Benefits” in this document. As far as we are aware, no administrative actions in relation to staff social security have been taken against us since our establishment of World Fair Heshan. We have commenced contributions to the medical insurance funds for all our eligible employees and the housing provident funds for some of our eligible employees from September 2009 onwards, and we will continue to make full payments in the future in compliance with relevant PRC laws.

Our Group also provides staff training, complimentary accommodation and staff catering at nominal costs to employees. For details of the staff training we provide, please refer to the section headed “Directors, Senior Management and Employees – Employees – Staff Training” in this document.

## **HEALTH AND SAFETY**

To ensure that our production facilities comply with applicable health and safety standards, we have established an environmental, health and safety management team which carries out periodic safety inspections at our production facilities. One of our customers also requires us to comply with certain additional health and safety standards, including ISO 14001:2004, OHSAS18001:2007 and the EICC standards. We have established an environmental, health and safety (EHS) management system and implemented the EICC system to comply with the above international standards.

Our environmental, health and safety management team is mainly responsible for carrying out on-site safety inspections, completing weekly safety records and non-compliance records for internal control and submitting our audit reports and on-site safety inspection reports to SGS for their review. In relation to potential risks at our production facilities, we have also established risk assessment control procedures to address potential risks.

As at the Latest Practicable Date, no prosecution has been made against us by any relevant authorities in respect of violations of applicable safety and health laws or regulations and our Directors confirm that we have complied with all such relevant laws, rules and regulations.

## **INSURANCE**

We maintain insurance policies with independent third parties to cover potential losses or damage with respect to our production facilities. These policies cover losses arising from fire, flood and other natural calamities in respect of buildings, machinery, equipment and inventory. We have not experienced any material business interruptions since we commenced our operations.

We also maintain product liability insurances and during the Track Record Period, we did not receive any material claims from third parties in relation to the use of our products or experience any material business interruptions with respect to our production facilities.



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### **ENVIRONMENTAL COMPLIANCE**

We commit to conduct our business without adversely affecting the environment. We have established the EHS management system to monitor our production as well as to ensure our production complies with relevant PRC’s national and relevant local environmental laws and regulations. During the Track Record Period, we engaged an external contractor, an Independent Third Party, to handle the waste discharged during the production operation and to ensure our production facilities comply with applicable environmental rules.

We always aim to run our operations in a manner that complies with the international environmental standards. We were accredited with the International ISO 14001:2004 and the IECQ Certificate of Hazardous Substance Process Management applicable to the European Directive 2002/95/EC (“RoHS”) Requirements in November 2006 and October 2007 respectively, which recognises our environmental friendly management system in relation to the manufacture of PCB touch pads and PCB assemblies. In addition, we have also been certified as a “green partner” by a consumer electronics brand and a recognised body in respect of our environment management system.

Over the Track Record Period, we engaged in the assembly of plasma light projectors. One of the components we assembled into each projector is a plasma light bulb, which contains Krypton 85, a radioactive element which is commonly found in other kinds of lamps. The plasma light bulbs we use in the assembly of plasma light projectors are supplied by Independent Third Parties and we do not engage in the production of plasma light bulbs. During the Track Record Period, no accident related to Krypton 85 had occurred in the course of our Group’s operations and our Group has installed venting equipment for the exhaustion of gas out of the production area of the plasma light bulbs to cater for any possible leakage of Krypton 85. As advised by our PRC legal advisers, the mere fact that our Group assembles plasma light projectors using plasma light bulbs containing Krypton 85 in the course of our production does not necessitate the application for any additional licenses or approvals in the PRC.

According to the confirmation issued by *Environmental Protection Bureau of Heshan* (鶴山市環境保護局) on 5 January 2010 and confirmed by our PRC legal advisers our business has complied with all applicable PRC environmental protection laws and regulations. We had no environmental incidents of pollution, accidents or other breaches of environmental laws and regulations and there have been no fines imposed against us by environmental protection authorities since our establishment.

As of the Latest Practicable Date, we have not been subject to any fines or legal actions involving non-compliance with any applicable environmental regulations in the PRC and there were no threatened or pending actions against us by any environmental regulatory authority in the PRC.

### **LEGAL PROCEEDINGS**

As at the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to be pending or threatened against us.

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### **PROPERTY**

#### **Property interests owned in the PRC**

We currently own the land use rights to a parcel of land with a site area of approximately 124,906.2 sq.m. and nine buildings and various ancillary structures erected thereon, at the New Material Base, Gonghe Town, Heshan City, Guangdong Province, PRC, which we use for our production, storage, office, ancillary facilities and staff quarters purposes.

Our PRC legal advisers have confirmed that for the above land use rights, we possess the relevant government approvals, consents and land use rights certificate and we have complied with all relevant PRC laws and regulations.

Amongst the nine buildings erected on our parcel of land, seven are for our production, warehousing and offices, occupying a total gross floor area of approximately 39,700.9 sq.m. According to our PRC legal advisers, we have obtained the government approvals, consents and real estate title certificates for all seven blocks of buildings.

The land use rights of the above parcel of land owned by us and the seven buildings we use for production, warehousing, and offices are subject to mortgages in favour of the Jiangmen branch of the Bank of China (the “**Chargee**”) as security for various loans extended by the Chargee to World Fair Heshan with various security terms the latest of which expires in December 2018. According to our PRC legal advisers, save and except for any transfer, investment contribution in kind or disposal of such land and buildings, which is subject to the prior written consent of the Chargee, our Group has the right to, inter alia, use and occupy said parcel of land and such buildings.

#### *Owned properties without real estate ownership certificates*

We also have two buildings on our land at New Material Base, which are used as a back-up power room and staff cafe, with a total gross floor area of approximately 616 sq.m., in which we have not obtained the relevant planning and construction permits prior to the commencement of construction. It was the understanding between our Group and the main contractor of our Jiangmen plant prior to the construction of the back-up power room and the staff cafe that the main contractor would be responsible for the application of the relevant planning and construction permits but the main contractor failed to apply for such permits. We however would not seek compensation from the main contractor in this regard since there was no contract value attributable to these two properties under the relevant construction arrangement between the Group and the main contractor. As the two properties only form a minor part of the larger construction project of our Jiangmen plant, the main contractor did not charge us separately for the construction of the back-up power room and the staff cafe. Our PRC legal advisers have advised that owing to our failure to obtain the relevant planning and construction permits prior to construction, the relevant local authorities may order us to demolish the constructed buildings, confiscate any of our income arising from such constructed buildings and may levy fines and penalties of up to 10% of the construction costs per building from failing to obtain the relevant planning permits and up to 2% of the contractual price per building from failing to obtain the relevant construction permits. As the back-up power room and the staff cafe are not part of our production facilities, we do not consider the demolition to have a material adverse impact on us should we receive demolition orders from the relevant authorities. Furthermore, the back-up power room is not yet in use and contains no power supply equipment. We have a designated power cable for exclusive use as our main power supply, which is connected to the local power station. The back-up power room did not contribute any income to us during the Track Record Period and no income was derived from the staff cafe during the Track Record Period as it is offered for the use and enjoyment of our senior management staff as part of staff welfare and benefits.

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In order to ensure that all the relevant permits are obtained prior to the commencement of any construction work in the future, we have adopted the following corporate governance measures:

- (1) We have designated Mr. Cheung Chi Keung, our Chief Financial Officer and company secretary to oversee our Group’s compliance with the relevant real estate certificates and licenses;
- (2) our PRC legal advisers had provided training to our senior management on the rules and regulations and the general requirements of PRC real estate certificates and licenses. Should there be any amendment to the relevant regulations or promulgation of new regulations, our PRC legal advisers will inform us of the details of the changes;
- (3) our Audit Committee shall review annually the internal control system of our Group to ensure, inter alia, that we fully comply with the relevant PRC real estate certificates and licenses requirements. In addition, our Audit Committee will also be required to report to the board of directors on any suspected non-compliance; and
- (4) we will retain a PRC lawyer to act as our legal adviser for PRC legal issues. We will seek legal advice when required from time to time to ensure compliance with the relevant laws and regulations.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all cost and expenses in relation to our failure to obtain the requisite licenses and permits.

### **Property under construction in the PRC**

#### *Properties under construction without necessary permits*

Our Group has four non-completed buildings, including an R&D centre, a production plant, a staff quarters and a warehouse on our New Material Base land parcel, the construction work of which has been suspended as we have not been able to obtain the requisite Construction Work Commencement Permit (建築工程施工許可證). Additionally, our warehouse, production plant and staff quarters have not been able to obtain the requisite Construction Land Planning Permit (建設用地規劃許可證) and Construction Work Planning Permit (建設工程規劃許可證). Between September 2008 and March 2009, we received orders to cease all relevant construction work from the Heshan Municipal Development Bureau (鶴山市建設局) in relation to our R&D centre, production plant, staff quarters and warehouse. We will only resume the construction work upon the issuance of the necessary permits by the relevant authorities. Prior to the commencement of construction, it was understood between the contractors and us that the contractors of these properties under construction would be responsible for applying for the relevant planning and construction permits on our behalf. The contractors have, however, failed to apply for the said permits. The Group would not seek compensation from the main contractor in relation to its failure to obtain the relevant planning and construction permits.

Our PRC legal advisers have advised that in relation to our failure to obtain the relevant planning and construction work commencement permits prior to construction of our warehouse,

## **BUSINESS**

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production plant and staff quarters, the relevant local authorities may order us to cease construction and/or demolish the constructed buildings, confiscate any of our income arising from such constructed buildings and levy fines and penalties of up to 10% of the construction costs per building from failing to obtain the relevant planning permits and up to 2% of the contractual price per building from failing to obtain the relevant construction work commencement permits. Our PRC legal advisers have further advised that in relation to our failure to obtain the relevant construction work commencement permits prior to construction of our new R&D centre, the local authority may levy fines and penalties of up to 2% of the contractual price for the R&D centre, which shall be RMB56,940 as the total price prescribed in the contract for preliminary construction of the R&D centre was RMB2,847,000. Based on the total amount of construction costs and contractual price for the warehouse, production plant and staff quarters, and the contractual price for the R&D centre, the amount of fines and penalties (if any) would be approximately RMB1.8 million. If any or all of the above actions are taken by the local authorities and no suitable alternatives are available, we will not be able to expand our production capacity in the new production extension as planned and may also suffer the financial loss of potential income, the incurring of fines and penalties and the loss of construction expenses. As a result, our business operations and financial results will be materially and adversely affected consequently.

We have submitted an application to the local authority for planning permits and/or construction permits in respect of the four buildings under construction in August 2009. We cannot currently estimate the time it will take to obtain the permits for it depends on the administrative efficiency of the relevant PRC authority and in the event that we are unable to resume construction work for the four projects, we will have to consider alternative properties and locations in the proximity, including the leasing of properties from third parties for use as staff quarters, warehouse and production plant.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all potential losses, fines, penalties, costs and other damages in relation to our failure to obtain the requisite licenses and permits for our properties under construction.

### **Property interests occupied and rented in the PRC**

As at 31 March 2010, our properties occupied and rented in the PRC (namely, the properties marked 2 to 13 under “Property Valuation – Group II – Property interests leased and occupied by the Group in the PRC” in Appendix VI in this document) include approximately 14,395 sq.m of gross floor area for staff quarters purposes, approximately 536.4 sq.m of gross floor area for commercial purposes and approximately 7,771.2 sq.m of gross floor area for production purposes.

#### *Leased properties without land use rights certificates and real estate title certificates*

We have not obtained proper title documentations for our leased properties marked 4, 5, 10, 11 and 12 under “Property Valuation – Group II – Property interests leased and occupied by the Group in the PRC” in Appendix VI in this document. As advised by our PRC legal advisers, there should not be any penalties to us but in the event that the relevant lessors are unable to prove valid title to such properties, or where any such leased properties is found to be illegal or unauthorised structures, the relevant property tenancy agreements may become invalid and unenforceable under PRC law, as a result of which, we may not be able to continue to occupy and use such leased properties.

The lessors have undertaken to resolve and handle any disputes and penalties arising from the leasing of such properties, in addition to which, we have obtained an indemnity from each of the relevant lessors in respect of any and all damage and losses (including reasonably expected economic losses) that may result from any such disputes and penalties. Nonetheless, there is no

## **BUSINESS**

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assurance that the lessors will honour their undertakings and indemnities in which case, we may suffer financial losses in relation to any disputes and penalties arising from such leased properties and related relocation costs, which we estimate to be around RMB0.1 million.

Our Controlling Shareholders have also agreed to indemnify us from any costs arising from the relocation to the extent that the damage, if any, that may be recovered from the relevant lessor for defective title or failure to register the lease agreements is not sufficient to cover such relocation costs.

### **Property interests rented in Hong Kong**

During the Track Record Period, we also leased a property in Sunley Centre, No. 9 Wing Yin Street, Kwai Chung, New Territories, Hong Kong. We have used the said leased property as office and warehouse in Hong Kong during the Track Record Period. As at the Latest Practicable Date, we leased certain workshop units in the building for warehouse purposes.

According to the tenancy agreements, use of the leased properties was limited to workshop and ancillary accommodation for non-domestic use. We were not aware of the restricted use of the premises at the time and therefore did not make any delineation in the use of the premises. As a result, we may have infringed the tenancy agreements, the permitted user and the deed of mutual covenants in respect of this leased property.

In September 2009, we relocated our office to Nina Tower, 8 Yeung Uk Road, TWTL 353, Tsuen Wan, New Territories, Hong Kong, which we leased, as at the Latest Practicable Date, four units with a total area of approximately 21,000 square feet, and where our principal place of business in Hong Kong is currently located.

Our Controlling Shareholders have also agreed to indemnify us for all potential losses, penalties, fines and damages arising from outstanding land and property titles, permits, approvals, non-registered leased properties and breach of tenancy agreements.

### **Property interests rented in Taiwan**

We currently rent a property with a gross floor area of approximately 112.66 sq.m. at No. 408, Rueiguang Road, Neihu district, Taipei City, Taiwan. We currently occupy this property as our Taiwan branch office and it is mainly used for office purpose.

Our Taiwan legal advisers, Lee and Li, have confirmed that the above lease is valid and enforceable in all material respects.

For details of all our property interests, please refer to the property valuation report contained in Appendix IV in this document.

## **RELATIONSHIP WITH SYNAPTICS**

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**This section includes information relating to Synaptics, unless otherwise stated, is extracted from the iSuppli Touch Report and other publicly available sources including the websites of Synaptics and the public filings of Synaptics (including its annual report for the fiscal year ended 30 June 2009 and its listing document). Our Directors have taken all reasonable care to ensure that the relevant facts in this section are accurately reproduced from relevant sources. The facts and statistics in this section have not been independently verified by our Company. None of them makes any representation as to the accuracy or completeness of such information which may not be consistent with other information available and may not be accurate and should not be unduly relied upon.**

### **Touch pad supply chain**

The touch pad supply chain consists of (a) IC suppliers, (b) touch pad manufacturers, (c) touch pad vendors, (d) ODMs/OEMs of notebook computers and consumer electronics and (e) consumer electronics brands. Our Group is a touch pad manufacturer in this supply chain.

There are a number of touch pad IC suppliers in the industry, including Synaptics, our major customer. Some suppliers produce their ICs whilst others out-source the production of their ICs.

Touch pad manufacturers, will either purchase or, in the case of our Group, be consigned with ICs by the IC suppliers for manufacturing purposes. Touch pad manufacturers, including our Group, assemble and sell touch pads to touch pad vendors such as Synaptics, who then sells such touch pads to ODMs/OEMs of notebook computers and other consumer electronics.

Whilst our Group is a touch pad manufacturer in the supply chain, Synaptics performs the dual roles in (i) developing and supplying the ICs and (ii) procuring touch pads from manufacturers such as our Group and selling the same to the ODMs/OEMs of notebook computers and other consumer electronics.

### **Our single largest customer – Synaptics**

Over the Track Record Period, we heavily relied on our single largest customer, Synaptics, for our sales and revenue. The sales of touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. We produced capacitive touch pads, multimedia buttons and touch screen components for Synaptics. We believe that we are one of the key suppliers and contract manufacturers of Synaptics’ touch products.

Our Directors believe that given our over 10-years’ business relationship with Synaptics, our production know-how, the quality and cost structure of our products, which have met the requirements of Synaptics and its customers, it favours both parties to continue their long-term course of dealings. Although we do not have a formal long-term supply agreement with Synaptics, given its market position in the touch product industry and the fact that there are only a few leading players in the industry, it is our practice not to provide similar manufacturing services to its competitors.

## **RELATIONSHIP WITH SYNAPTICS**

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### **Background of Synaptics**

Synaptics has been listed on NASDAQ since 2002 and is regulated by the Securities Exchange Commission, an agency created by the U.S. Securities Act and the Securities Exchange Act of 1934 which regulates the securities industry in the United States. Its current headquarters is situated in California, the United States.

According to the iSuppli Touch Report, Synaptics is the leader in touch product sales (PC and mobile devices segment taken as a whole). For the period from 2004 to 2008, Synaptics accounted for approximately 85.8%, 67.0%, 66.9%, 62.9% and 59.1% of the annual worldwide touch pad revenue, and there are five other leading touch pad vendors, which accounted for approximately 1.4% to 23.5% of market share in terms of worldwide touch pad revenue in 2008. For the PC touch pad segment alone, Synaptics shared approximately 75% of annual revenue worldwide in 2008. We also believe that Synaptics has the following competitive advantages: (i) patents and technologies (we believe Synaptics possesses an extensive portfolio of intellectual property rights relating to touch products); (ii) scale of production (evidenced by its high sales volume) and (iii) established customer relationships (Synaptics' customers include major consumer electronics brands).

Synaptics' business includes developing and supplying custom-designed human interface solutions. Its target markets consist of the PC market and digital lifestyle products market which includes mobile smartphones and feature phones, portable digital music and video players. Synaptics' products include touch pads, touch buttons and touch screen products.

As disclosed in Synaptics Annual Report, Synaptics' suppliers include three semiconductor manufacturers, which produce technical components of the touch products, package and test processors, which further process and package the technical components; and various contract manufacturers, which assemble the consigned components to produce touch products. Synaptics engages contract manufacturers mainly in China, Taiwan and Thailand for the production of its products and components based on rolling forecasted production requirements with no long-term agreement.

### **Risks faced by Synaptics**

As disclosed in the Synaptics Annual Report, Synaptics faces a number of risks, including the following:

- (1) Synaptics derives a very substantial portion of its revenue from the sale of touch products for notebook computers, and such products accounted for approximately 57% of its net revenue for the fiscal year 2009. Any weakening of demand in the notebook and PC market will cause harm to its business and financial conditions.
- (2) As Synaptics does not sell directly to retail consumers, it has no control over the manufacturing, distribution, pricing and market acceptance of the end products which incorporate its touch products. The Synaptics' sales will decrease if its customers in turn do not achieve commercial success in selling such end products to consumers.
- (3) Synaptics relies on the purchase of its proprietary ICs from designated IC suppliers and contract manufacturers are then consigned with the ICs for assembly. Should the supply of

## **RELATIONSHIP WITH SYNAPTICS**

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these requisite ICs becomes unavailable, the operations of Synaptics may be adversely affected.

- (4) Synaptics’ business could be harmed if its products become less competitive or outdated as a result of technological breakthroughs that allow a new interface solution to displace its touch product solutions and its touch pad products may become obsolete.

For details, please refer to the section headed “Risks Factors – Risks Relating to Our Group – We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results” of this document.

### **Relationship with Synaptics**

#### *History with Synaptics*

We commenced our touch pad business with Synaptics in 1998. Save and except for the ongoing business relationship between Synaptics and our Group, Synaptics has no past or present relationship (business or otherwise) with our Group, our Controlling Shareholders, our Directors and their respective associates.

We have maintained a long-term business relationship with Synaptics for over 10 years, during which we have relied on Synaptics for a significant source of our revenue, its patents and technologies. One of the reasons for maintaining this reliance is that Synaptics is a global leader in touch pad sales in terms of revenue and has a first-mover advantage in terms of touch product technologies.

#### *Contractual arrangement with Synaptics*

Our Group has established over a decade’s course of dealings with Synaptics. We have not in the past, entered into any formal long-term supply agreement to govern our relationship but have relied instead on individual purchase orders, rolling forecasts and work instructions placed by Synaptics from time to time. Our practice of not having any formal long-term supply agreement with Synaptics is adopted based on the following considerations:

- (a) it is our practice to conduct sales with Synaptics based on purchase orders and rolling forecasts, which are non-binding in nature. Our Directors believe that such practice is in line with business practices of other manufacturing services providers in the electronics industry.;
- (b) Our business partnership with Synaptics without a long-term binding agreement offers us with the flexibility in our operations to cater for dynamic changes in the electronics industry such as changes in customer demand and technologies; and
- (c) most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry and only minor adjustments, which could be completed in a reasonably short period of time with nominal costs, would be



## **RELATIONSHIP WITH SYNAPTICS**

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required to accommodate other specific requirements from other customers. In addition, our production staff will only have to attend brief training sessions and can be trained up within a reasonably short period of time at nominal costs.

Although we do not have a formal long-term supply agreement with Synaptics restricting us from providing similar manufacturing services to others, it is our practice not to provide similar services to competitors of Synaptics. If technically we cease our business relationship with Synaptics, and we decide to produce touch products for other industry players, there may be a material adverse impact on our market position and financial conditions if we were unable to secure a similar level of orders from other industry players. For further details on the risks of the competition that we face, please refer to the sections headed “Risk Factors – Risks Relating to Our Group – We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results”, “Risk Factors – Risks Relating to our Group – Our products contain components or otherwise involve registered patents not owned by us”, “Risk Factors – Risks Relating to our Group – Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights” and “Risk Factors – Risks Relating to Our Group – Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable” in this document.

### *Valued business partner and mutual reliance*

During our long-term course of dealings, our Group has offered continuous support and contribution to Synaptics as a valued business partner and the parties have developed a mutual reliance in terms of sales and cost effectiveness.

On the one hand, our Group has attained a mass volume of production, enabling Synaptics to become a leading provider of notebook touch pads by volume. On the other hand, Synaptics has benefited from our Group’s lower cost structure and quality products. Our Directors believe that if Synaptics was to commence business relationship with a new touch pad manufacturer, the higher cost structure of the new touch pad manufacturer may adversely impact the profit margin of Synaptics. Our Directors believe that it would also be difficult for other touch pad manufacturers to achieve our production capacity within a short period of time.

According to the Synaptics Annual Report, its cost of revenue for each of the three fiscal years ended 30 June 2007 to 30 June 2009 was approximately US\$160.9 million, US\$213.6 million and US\$281.8 million respectively. During the three years ended 31 December 2009, approximately HK\$629.6 million, HK\$741.6 million and HK\$705.2 million (equivalent to approximately US\$80.7 million, US\$95.1 million and US\$90.4 million respectively) of our Group’s revenue was attributed to Synaptics respectively. Based on these financial figures as a point of reference only, we believe that Synaptics relies on our Group as a key contract manufacturing provider. Though it should be noted that (i) since the financial year of Synaptics ends on 30 June whereas the financial year of our Group ends on 31 December, the financial figures quoted above are not directly comparable; (ii) as the breakdown of Synaptics’ cost of revenue is not publicly available, its total purchases of capacitive touch products is unknown and (iii) the accounting standards and principles of Synaptics and our Group are different. As such, the above figures are for illustration purposes only and should not be unduly relied upon.

## **RELATIONSHIP WITH SYNAPTICS**

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According to the Synaptics Annual Report, Synaptics utilises contract manufacturers for all of its production requirements. Moreover, Synaptics does not have long-term agreements with any of its contract manufacturers that guarantee production capacity, prices, lead times or delivery schedules. This strategy of relying on these contract manufacturers exposes Synaptics to vulnerability owing to its dependence on few sources of supply but our Directors believe that having no long-term agreements with its contract manufacturers on the other hand offers Synaptics with the flexibility of establishing relationship with other suppliers to reduce its dependence on any one source of supply. These contract manufacturers also perform services for numerous companies other than Synaptics. The Synaptics Annual Report provides that the process of qualifying new contract manufacturers by Synaptics is time consuming and might result in unforeseen manufacturing and operational problems. The Synaptics Annual Report further provides that any loss of relationships by Synaptics with its contract manufacturers or assemblers or their inability to conduct their manufacturing and assembly services for Synaptics as anticipated in terms of cost, quality and timeliness could adversely affect Synaptics’ ability to fill customer orders with required delivery, quality and performance requirements. Should the above occur, this would result in a decline in revenue which would in turn harm Synaptics’ business.

Our Group ships the manufactured products directly to Synaptics’ customers. During the years from 2004 to 2009, our Group sold approximately 306.0 million touch pads in total. According to the iSuppli Touch Report, during the same period, global capacitive touch pad unit shipments for the notebook computers were estimated to be approximately 579.0 million, and the global shipments for notebook computers were estimated to be approximately 578.2 million, respectively. For the year ended 31 December 2007 and 2008, the global touch pad unit shipments for notebook computers were approximately 103.6 million and 139.8 million respectively, also according to the iSuppli Touch Report. Given that our Group is one of the largest touch pad manufacturers for notebook computers in the world by volume, Synaptics may have difficulty in securing supply from other touch pad manufacturers within a short period of time to satisfy the demand of its customers should it cease its business relationship with our Group.

Synaptics is an Independent Third Party, which we conduct business with at arms’ length basis. Despite the parties’ independence and the lack of any formal long-term commitment, our Group has remained as a key contract manufacturing provider of Synaptics for over 10 years and has accounted for a major portion of Synaptics’ sales. Our Directors consider that the main reasons for our Group remaining as Synaptics’ key contract manufacturing provider are the Group’s cost effectiveness and quality advantage. As the market leading vendor of touch pads, Synaptics has chosen our Group as its valued business partner amongst our Group’s other competitors. These all add up to evidence our Group’s importance to Synaptics.

### **Reliance on Synaptics – A Decreasing Trend**

#### *Sales Concentration*

We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our revenue respectively for each of the three years ended 31 December 2009. For the fourth quarter of the year ended 31 December 2009, sales to Synaptics accounted for approximately 60.5% of our revenue. Our business and financial results rely on, amongst other factors, the continuation of orders and the quantity of orders placed by Synaptics.

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Our Group believes that Synaptics’ leading position in the touch pad industry was mainly due to (a) Synaptics’ first-mover advantage in the touch pad industry and Synaptics has since for a number of years, been leading the touch pad industry (b) the fact that the cost of touch pads is relatively minimal when compared with the value of notebook computers, the system-integrators, i.e. the ODMs/OEMs of notebook computers and Synaptics as a market leader has customarily established long-standing relationships with consumer electronics and continue with such arrangement and (c) its scale of production.

With our active efforts to diversify our product mix during the Track Record Period and in particular, the year ended 31 December 2009, percentage of our total revenue attributable to Synaptics has decreased.

Please refer to the section headed “Risk Factors – Risks Relating to Our Group – We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results” in this document.

### *Qualification certifications by Synaptics’ customers*

Although our Group’s indirect sale of touch products to ODMs/OEMs of notebook computers and other consumer electronics are conducted through Synaptics, in order to ensure that their specifications and expectations are met, we have, in the Track Record Period, worked closely with them and have obtained qualification certificates directly from a range of such ODM/OEMs and consumer electronics brands which utilised touch products we manufactured. The qualification process is a cost and time-consuming process, which presents a market entry barrier for potential competing touch product manufacturers and impediment for Synaptics to turn to alternative manufacturing services providers.

“Qualification” is a process which our Group’s touch products, production facilities and production staff are audited by the ODMs/OEMs for notebook computers and consumer electronics and other end customers of the supply chain, being consumer electronics brands, to ensure that their specific requirements from technical and design specifications, work procedures, product quality to factory environment, inventory management and staff training are satisfied. In this process, our Group is given tailored specifications from the relevant end customers of the supply chain and upon which our Group works closely with their audit team and Synaptics to make adjustments and improvements in order to meet such requirements. Some end customers also carry out regular reviews and audits following initial qualifications. In the course of routine production, we are in regular contact with the relevant ODMs/OEMs and end customers for purposes of regular audits and improvement plans.

Throughout the past decade, we have received qualifications from the ODMs/OEMs and end customers. We believe that Synaptics may not terminate its engagement of our Group’s contract manufacturing services without first consulting its customers. Given that (a) the qualification process requires considerable time and costs to complete, (b) the cost of a touch pad is relatively low when compared with the value of a notebook computer, (c) the fact that our Group has been in the touch pad industry for more than 10 years and (d) our Group’s production process and quality

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## **RELATIONSHIP WITH SYNAPTICS**

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products have satisfied design specifications and other production requirements of Synaptics' customers, our Directors believe that it is unlikely that Synaptics' customers would require Synaptics to cease its engagement of our Group.

### *Direct delivery to ODMs/OEMs and end customers of supply chain*

In addition to qualification process, our Group has also been directly delivering our touch products to ODMs/OEMs and the end customers of the supply chain.

### *Consignment of ICs and provision of other materials and work instructions*

In order to ensure our products satisfy Synaptics' technical and functional requirements and to protect its proprietary technology and technical know-how, in line with the practice of the electronics manufacturing service industry, we have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics, which is solely for use in the production of touch products for Synaptics. The consigned ICs are shipped to us directly from the designated IC suppliers and payment for the ICs is settled by Synaptics directly with its IC suppliers. Synaptics also provides us with designs, drawings, specifications and software specific for the production and testing of its touch products, which are not generally applicable to all touch products in the market.

With the provision of these components and materials, we conduct the production process of touch pads for Synaptics, which mainly involves the assembly of the ICs and other touch pad components onto the PCBs through SMT and COB processes, circuit testing for connectivity and application testing for functionality.

Our Directors believe that consignment is widely and generally adopted in the electronics manufacturing industry. It is also common for electronics manufacturing services providers to share and use intellectual property rights of their customers in the process of providing manufacturing services. Over the Track Record Period, we did not record these components and materials provided by Synaptics in our accounting records.

Although ICs sourced from different IC suppliers, including those from Synaptics, contain certain proprietary rights, our Directors believe that they generally perform similar functions and are therefore close substitutes of each other. Other than ICs consigned by Synaptics to our Group, there are ICs from other IC suppliers readily available for sale in the market. In terms of mechanical constraints, the use of ICs from other IC suppliers may involve minimal adjustments to the software relating to our production and machinery and certain testing procedures which our Group is capable of handling in-house.

We are committed to become the manufacturing partner of our customer rather than a mere sub-contractor and we are involved in a series of engineering, procurement, assembly and logistics processes in the course of our production. We provide suggestions to our customer such as PCB modifications, use of alternative components and component positioning with the aim of achieving higher production efficiency and cost advantages. In terms of procurement, there are other key components of touch products, such as connectors, PCBs and mylars, which instead of being provided or consigned by our customer, we source from suppliers and distributors in the market.

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## **RELATIONSHIP WITH SYNAPTICS**

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With regards to the assembly of touch pads, we apply our production know-how and experience to satisfy the requirements of our customer.

Synaptics has also specifically requested us to acquire certain testing equipment during the Track Record Period for testing of capacitive touch pads. Such equipment is however not tailored specifically for testing Synaptics’ products and can be used to conduct testing of products manufactured for other customers if and when required with minor adjustments within a reasonably short period of time.

### *Patents and Technologies*

Our touch products utilise capacitive touch technology. Synaptics possesses an extensive array of patents and technologies and its products rely a combination of technologies. Synaptics, according to the iSuppli Touch Report, has over 100 patents in force and over 80 applications pending in the United States, and many other patents registered or pending registration outside of the United States. These patents and patent applications relate to capacitive touch sensing and other technologies, such as customisable touch zones, edge motion and virtual scrolling. Its proprietary software is also protected by copyright laws and other trade secret laws. We have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics authorising us to utilise its proprietary IC designs, drawings, specifications and software which incorporate its intellectual property rights solely for use in the production of touch products specific to Synaptics.

We do not have full information on the patents and technologies which are used and relevant to the production of touch products for Synaptics, nor the details of such patents (including the expiry dates of Synaptics’ patents on relevant touch products). Our Directors believe that the lack of knowledge and/or ownership of the relevant patents and technologies in our touch pads does not affect the viability of our business, as our focus is on the provision of contract manufacturing services in the assembly of touch products with our added production know-how and experience.

As our production process mainly involves the assembly of the ICs and other touch products components onto the PCBs through SMT and COB processes, circuit testing for connectivity and application testing for functionality, knowledge of the patented technologies in respect of touch products is not a pre-requisite for our production process. Our Directors believe that our Group’s main strength as a manufacturing services provider lies with our SMT/COB manufacturing capabilities which enable us to offer high quality products at competitive pricing and timeliness.

In the event that Synaptics terminates the license arrangement with us and ceases to have a business arrangement with us and accordingly its consigned IC drawings, specifications, tooling, work instructions become unavailable for our production of capacitive touch products, we could solicit business from other industry players and utilise the ICs, designs, drawings, specifications and software provided by such customers to continue our production of capacitive touch products. If technically we cease our business relationship with Synaptics, a global leader of touch pads and we decide to produce touch products for other industry players, there may be a material adverse impact on our market position and financial conditions if we were unable to secure similar level of orders from other customers.

For further details of the risks relating to our business, including the intellectual property rights which are not owned by us, please refer to the sections headed “Risk Factors – Risks Relating to Our Group – Our products contain components or otherwise involve registered patents not owned by us”

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## **RELATIONSHIP WITH SYNAPTICS**

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and “Risk Factors – Risks Relating to our Group – Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights” and “Risk Factors – Risks Relating to Our Group – Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable” of this document.

### *Transferability of experience and know-how*

In the course of our production of touch products for Synaptics, we have been applying our production know-how and experience in SMT and COB production. In addition to strictly following our customers’ work instructions and specifications, we provide suggestions regarding PCB design modifications, use of alternative components and optimal component positioning to Synaptics regarding its product design with an aim of achieving higher manufacturing efficiency and cost advantage. We also have experience in controlling the production environment and product fitness.

Although during the Track Record Period, the production of capacitive touch products for Synaptics, remained our revenue driver and the bulk of our property, plant and equipment were committed to this effort, most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry.

In relation to production facilities, only minor adjustments including changing production and testing software, conveying tooling and final assembly process, would be required to accommodate other specific requirements from other customers. The adjustments can be completed within a reasonably short period of time and at nominal costs. With regards to our production staff, as most of our production process is automated, they are mainly responsible for loading and off-loading assembly units, transporting finished products and conducting visual inspection. As such, our production staff will only have to attend brief training sessions and can be trained up within a reasonably short period of time at nominal cost.

In the event that Synaptics reduces its sales orders or if we were to cease our business relationship with Synaptics in the future, we believe that by utilising our production know-how and industry experience, in particular in relation to SMT/COB process, with other customers’ specifications and work instructions, we are technically capable of producing touch products for other customers by utilising ICs from other sources readily available in the market, as well as other electronics products, the production of which involves SMT/COB processes.

Please refer to the section headed “Risk Factors – Risks Relating to Our Group – We have relied on the sales of touch pads and other products to Synaptics for approximately 93.4%, 98.9% and 79.4% of our annual revenue respectively for the three years ended 31 December 2009, whose business and operations could have material and adverse effects on our Group’s business operations and financial results” in this document.

### *Product life cycle and risks of obsolescence*

According to the iSuppli Touch Report, although touch pad have existed for more than 10 years with switching of technology from resistive technology to capacitive touch technology, the number of touch pad products is still estimated to grow and the overall market size of capacitive touch pads will further increase to approximately 775 million units in 2013 from 379 million units in 2009 representing a CAGR of approximately 19.6%. For touch screen products, according to DisplaySearch, shipments of touch screen modules are expected to increase to approximately 1.4

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billion units by 2015 from approximately 483 million units in 2009, representing a CAGR of approximately 16.9%, which is approximately 3.4 times faster than the growth of the display industry. Based on such estimated growth rates, our Directors believe that the product life-cycles of touch pads and touch screen products are at a growth stage and they anticipate the overall market size to increase in the coming years.

The markets for both capacitive touch pads and touch screens are estimated to continue to grow at a CAGR of double digits in the coming years, according to iSuppli Corporation. Our Directors believe that the capacitive touch pads market and touch screen market are two different markets with different price profiles, in which the touch pad modules and touch screen modules can be used in different electronics products. (Touch pads are mainly used in inter alia, notebook computers and multi-media players, whilst touch screens can be applied to mobile phones, television and desktop PC monitors.) Our Directors do not believe that the market of capacitive touch pads will be replaced by touch screen modules in the foreseeable future.

In the unlikely event that capacitive touch pads are replaced by touch screen products (which our Group also possesses the requisite manufacturing capacity) or other products in the near future, by utilising the production know-how and experience in SMT and COB production, we aim to minimise such risk by continuing our strategy of product diversification. For details, please refer to the section headed “Business – Production – Production facilities” in this document. Please also refer to “Risk Factors – Risk relating to our Group – We may not be able to enhance our existing products or production process to match the rapid pace of technological development” in this document.

Our Directors do not consider our Group to be subject to the risk of obsolescence as we base our production on the volume of orders placed by customers and hence there is no material inventory of finished products (other than temporary storage prior to delivery to customers).

### **Our Alternative Business Model/Diversification and Contingency Plan**

Our Group has maintained a long-term business relationship with Synaptics for over 10 years and has relied on Synaptics for a significant source of revenue. We have shared the patents and technologies of Synaptics for the production of its touch pads.

Despite our relationship with Synaptics as described above, which we expect to continue, our Group, for reasons stated in this section, believe that it has the ability to sell directly to ODM/OEMs of notebook computers and consumer electronics and end customer of the touch pad supply chain in practice. The historical sales reliance of our Group on Synaptics brings along limited risks on its business model and in the interest of the long-term business relationship with Synaptics, our Group has not in the past actively explored the possibility of direct sales to Synaptics’ customers as an alternative business model. In the interest of preserving its long-term business relationship with Synaptics, while our Group is not obliged to continue its current business arrangements with Synaptics, our Group has not and does not intend to deviate from such business model.

Our Directors also anticipate that the significance and proportion of revenue to be derived from Synaptics will gradually decrease through our diversified product mix, including the expansion in the production of wireless charging devices, the capitalisation of growth in fingerprint biometric

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## **RELATIONSHIP WITH SYNAPTICS**

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devices and the sales of plasma street lamps. As these three products carry higher gross profit margins (approximately 29.8%, 42.2% and 37.9% in the year ended 31 December 2009, respectively) when compared to capacitive touch products (approximately 27.6% in the year ended 31 December 2009), these products may contribute to the increase of our overall gross profit margins. For details of the respective revenue and gross profit margins of our products, please refer to the section headed “Financial Information” in this document.

In the event that our business relationship ceases with Synaptics, we would rely on our ongoing product diversification plan for sustaining our business. Over the Track Record Period, we have expanded into the assembly of fingerprint biometric devices, wireless charging devices, plasma lighting products and various other automotive and medical devices. Our wireless charging devices have accounted for approximately 11.5% of our revenue for the year ended 31 December 2009 and our Directors expect the wireless charging business segment to account for an increasingly significant portion of our revenue going forward. We have also developed our R&D capability over the Track Record Period for development of a series of new products and applications.

For details of our future plans, please also refer to the section headed “Business Overview – Strategies and Future Plans” in this document.



## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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### **OUR CONTROLLING SHAREHOLDERS**

Immediately following [●], Mr. Wong and Ms. Ching will be interested in approximately 67.17% of our Company’s total issued share capital through The KW Trust and, in addition, Ms. Ching will be interested in approximately 1.00% of our Company’s total issued share capital in her own name [●]. The KW Trust was set up on 1 December 2009 by Mr. Wong as settlor. It is a discretionary trust and the beneficiaries are the family members of Mr. Wong and Ms. Ching. The trustee is Credit Suisse Trust Limited, an Independent Third Party, which is a company incorporated under the laws of Singapore.

### **NON-COMPETITION UNDERTAKING**

Each of Mr. Wong and Ms. Ching, being our executive Director and Controlling Shareholder, has confirmed that other than their interests in our Group, none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings set out in the deed of non-competition dated 31 May 2010, each of Mr. Wong and Ms. Ching, and each of Soar Plan, Swan Hills and the Trustee (collectively, the “Covenantors”) has undertaken to our Company (for itself and on behalf of its subsidiaries) that during the period commencing from the [●]; (ii) the day on which the covenantors cease to be the controlling shareholders of our Company; and (iii) the day on which the covenantors beneficially own or are interested in the entire issued share capital of our Company:

- notwithstanding any provision in any Director’s service agreement entered into between the Company and any of its Directors, each of them will not and will procure that none of his/her/its respective associates, spouse and children under the age of 18 and persons to whom each of them provides financial assistance to set up and operate businesses (the “Controlled Persons”) or any companies in the equity capital of which each of the covenantors, his/her family interests and/or any trustee interests taken together are interested (directly or indirectly) so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Hong Kong Codes on Takeovers and Mergers and Share Repurchases as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors of such companies (the “Controlled Companies”) will, except through his/her/its interests in our Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of our Group as described in this document and any other business from time to time conducted by any member of our Group or in which any member of our Group is engaged or has invested in, or entered into any of intent or memorandum of understanding to enter into, or which our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement), within any of the territories where any member of our Group carries and/or will carry on business from time to time (the “Restricted Business”).

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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- if he/she/its and/or any of his/her/its respective associates, and/or any of the Controlled Persons and/or any of the Controlled Companies is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Business, he/she/it:
  - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as may be reasonably required by our Company in order to make an informed assessment of such business opportunity; and
  - (b) shall not and shall procure that his/her/its associates and/or Controlled Persons and/or Controlled Companies shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which each of the covenantors or his/her/its associates and/or Controlled Persons and/or Controlled Companies invest(s) or participate(s) are no more favourable than those made available to our Company.

Each of Mr. Wong, Ms. Ching, Soar Plan, Swan Hills and the Trustee undertakes that he/she/it will not and will procure that none of his/her/its respective associates and/or the Controlled Persons and/or the Controlled Companies shall:

- at any time induce or attempt to induce any director, manager or employee or consultant of any member of our Group to terminate his or her employment or consultancy (as appropriate) with our Group, whether or not such act of that person would constitute a breach of that person’s contract of employment or consultancy (as appropriate);
- at any time employ any person who has been a director, manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- alone or jointly with any other person, or as manager, advisor, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, or solicit or accept orders from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Each of Mr. Wong, Ms. Ching, Soar Plan, Swan Hills and the Trustee further undertakes jointly and severally, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of covenants and undertakings and/or any of the obligations of the covenantors under the deed of non-competition, including any costs and expenses incurred as a result of such breach.

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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The decision-making process in relation to the deed of non-competition will be governed and monitored as follows:

- (a) Our independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participate in such meeting be counted towards the quorum or allowed to vote in such meeting), whether or not to take up a new business opportunity referred to us under the terms of the deed of non-competition.
- (b) Our independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any new business opportunity or the options.
- (c) Each of Mr. Wong, Ms. Ching, Soar Plan, Swan Hills and the Trustee undertakes to keep us informed and shall procure his/her/its respective associates, Controlled Persons and Controlled Companies to keep us informed, of new business opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new business opportunity.
- (d) Our independent non-executive Directors will also review, on an annual basis, any decisions in relation to new business opportunities referred to us, and state their basis and reasons in our Company’s annual report.

In the event that our Company decides not to proceed with any particular projects or business opportunities and that Mr. Wong and Ms. Ching or his/her Controlled Persons and/or Controlled Companies decides to proceed with such a project or business opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the business opportunity.

## **INDEPENDENCE FROM CONTROLLING SHAREHOLDERS**

Having considered the matters described above and the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and their respective associates upon [●].

### **Management Independence**

Our Board comprises five executive Directors and three independent non-executive Directors. Two of our executive Directors, namely, Mr. Wong and Ms. Ching, are also our Controlling Shareholders. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a director and his/her personal interests.

If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective associates, the interested Directors shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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Since The KW Trust has no business other than holding the shareholding interest in our Company, our Directors do not consider that there is any issue which will arise in relation to our management independence.

Having considered the above factors, our Directors are satisfied that our management team is able to perform their roles in our Company independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders and their respective associates after [●].

### **Operational Independence**

Although our Controlling Shareholders will retain a controlling interest in our Company after [●], our Board has full rights to make all decisions on, and to carry out our own business operations independently. Although Mr. Wong and Ms. Ching, being two of our Controlling Shareholders, are also our executive Directors, in addition to the other six Directors (comprising three independent non-executive Directors), we have our own senior management team, who are independent of the Controlling Shareholders and their respective associates and have substantial experience in the industry in which our Company is engaged. As for the ownership of the patents and designs with respect to our Group’s business, Shining Union entered into a deed of assignment of patents and patent applications with Mr. Wong on 28 November 2009, pursuant to which Mr. Wong agreed to assign to Shining Union all his patents and patent applications with respect to our Group’s business. On the same date, Shining Union also entered into a deed of assignment of designs and design applications, pursuant to which Mr. Wong agreed to assign to Shining Union all his designs and design applications with respect to our Group’s business. Therefore, together with the assignment of the respective trademarks and trademark applications from World Fair Hong Kong and Cybertouch to Shining Union, and the assignment of the respective domain names from World Fair Hong Kong and World Fair Heshan to Shining Union on 28 November 2009, our Company, through Shining Union, holds all the patents, trademarks, designs and domain names with respect to our business, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders and their respective associates.

Moreover, we have independent access to our customers and suppliers who are third parties independent from and not connected to our Controlling Shareholders. We have adopted a set of internal control procedures to facilitate the effective and independent operation of our business. For instance, we adopted the Purchase Management Procedure on 1 February 2007 which, among others, sets out the selection procedures of our new suppliers. Furthermore, our OEM customers often designate suppliers who are chosen from the approved vendor lists. As such, we are not reliant on our Controlling Shareholders or their respective associates in the procurement of raw materials. For procuring new customers, we have established our own sales and marketing teams which are led by our senior management independent of our Controlling Shareholders and their respective associates and we have our own sourcing, marketing, distribution and customer relationship operations, which are operated independently from our Controlling Shareholders and their respective associates. As such, we do not rely on our Controlling Shareholders or their respective associates for access to customers.

[●] and therefore no reliance will be made on our Controlling Shareholders in leasing properties for our operations. Our Directors currently do not foresee that there will be any other business transactions between

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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our Group and our Controlling Shareholders and their respective associates and no service and facilities with respect to our operations will be provided by our Controlling Shareholders. [●]

### **Financial Independence**

As at the end of the periods within the Track Record Period, the amount of total bank borrowings and finance lease obligations of our Group, which were secured by the assets of and/or guaranteed by Mr. Wong and Ms. Ching, was approximately HK\$76.4 million, HK\$117.0 million and HK\$290.6 million respectively. Our Directors have confirmed that all the security and/or guarantees to our Group from Mr. Wong and Ms. Ching were released as at Latest Practicable Date.

Moreover, our Directors are of the view that our Group is capable of obtaining financing from external sources without reliance on Mr. Wong and Ms. Ching after [●]. Therefore, there is no financial dependence on Mr. Wong and Ms. Ching.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **DIRECTORS**

Our Board consists of eight members, three of whom are independent non-executive Directors. The table below shows certain information in respect of our Directors:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mr. Wong Kwok Fong	46	Chairman, Chief Executive Officer and executive Director
Ms. Ching Pui Yi	40	Chief Operating Officer and executive Director
Mr. Cheung To Keung	48	Vice President of Manufacturing and executive Director
Mr. Lam Ho Sang	44	Vice President in Technology, Products Development and Worldwide IP Officer, and executive Director
Mr. Tan Hui Kiat	48	Senior Operations Director and executive Director
Mr. Wong Chun Bong	51	Independent non-executive Director
Mr. Lee Kwok On, Matthew	50	Independent non-executive Director
Mr. Chan Wai	40	Independent non-executive Director

### **Executive Directors**

**Mr. Wong Kwok Fong** (王國芳), aged 46, is our co-founder, Chairman, Chief Executive Officer and was appointed as our executive Director on 17 July 2009. Mr. Wong established the business of our Group in 1997. He is the spouse of our Chief Operating Officer and executive Director, Ms. Ching Pui Yi. Mr. Wong has also been a director of World Fair Hong Kong and Cybertouch since July 2002 and November 2002 respectively. Since the establishment of our Group’s business in 1997, Mr. Wong played a significant part in the substantial growth of business of our Group. Mr. Wong has over 12 years of senior management experience in manufacturing, supply chain and marketing functions in electronics and technology industries from our Group. He was responsible for setting up our manufacturing plants in Hong Kong and China. Mr. Wong has established our extensive network in the electronics and technology industry.

He is currently the legal representative of World Fair Heshan. Mr. Wong is primarily responsible for the overall corporate strategies, planning, management and business development of our Group. Mr. Wong is a standing committee member of the 8th Session of the Chinese People’s Political Consultative Conference, Heshan, and the vice president and the president of the Association of Information Industry and the Manufacturing Branch Association of Information Industry of Jiangmen City respectively. He is also an Honorary Citizen of Jiangmen City. Mr. Wong obtained a higher certificate in Accountancy from the Hong Kong Polytechnic (香港理工學院), currently known as the Hong Kong Polytechnic University (香港理工大學), in October 1992. He has not held any directorships in any listed companies in the last three years.

**Ms. Ching Pui Yi** (程佩儀), aged 40, is our co-founder, Chief Operating Officer and was appointed as our executive Director on 17 July 2009. She is the spouse of our Chairman, Chief Executive Officer and executive Director, Mr. Wong Kwok Fong. Ms. Ching has also been a director of World Fair Hong Kong since March 2004 and a director of Cybertouch since August 2009. Ms. Ching is primarily responsible for the overall strategic implementation, business development, daily operations and management of our Group and she has been dedicated to the development, design, operation and improvement of our systems of production. She has gained substantial

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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experience in our industry through the development of our business. Ms. Ching has over 16 years of experience in the electronics sector. Prior to joining us, Ms. Ching was an accountant in Santai Manufacturing Limited. Ms. Ching has been engaged in the electronics business since February 1993. Ms. Ching obtained a higher certificate in Company Secretaryship and Administration from the Hong Kong Polytechnic (香港理工學院), currently known as the Hong Kong Polytechnic University (香港理工大學), in 1994. She has not held any directorships in any listed public companies in the last three years.

**Mr. Cheung To Keung (張圖強)**, aged 48, is our Vice President of Manufacturing and was appointed as our executive Director on 28 November 2009. He joined us in July 2009. Mr. Cheung is responsible for all manufacturing and manufacturing support activities in our production facilities in Jiangmen, the PRC. Mr. Cheung has been engaged in the electronics sector since 1988. Prior to joining us, Mr. Cheung was staff assistant to the president of Belton Holdings Limited, from March 2006. Mr. Cheung was employed at Hypercom Asia Ltd, from October 1995 to October 2005 as a production manager, manufacturing operations manager and general manager, respectively. Between September 1988 and October 1995, Mr. Cheung was the assistant general manager of Sylva Industries Limited. Mr. Cheung obtained a master’s degree in Business Administration (MBA) from the University of Warwick in the United Kingdom in 1996 and in 1999, Mr. Cheung obtained another master’s degree in Accounting from the Curtin University of Technology in Australia, both of which were distance learning courses. He has not held any directorships in any listed public companies in the last three years.

**Mr. Lam Ho Sang (林浩生)**, aged 44, is our Vice President in Technology, Products Development and Worldwide IP Officer, and was appointed as our executive Director on 28 November 2009. He joined us in August 2008. Mr. Lam is leading our in-house R&D and product design teams and is responsible for the R&D of, among others, our new touch sensors and fingerprint biometrics devices, and the development of our own technologies and solutions for product applications. Mr. Lam has over 18 years of experience in the electronics sector and has over four years of experience in the computer engineering sector. Prior to joining us, Mr. Lam was the assistant general manager of corporate engineering at Automatic Manufacturing Limited. Mr. Lam was the director of product development of electronics control systems of Clipsal Asia Holdings Limited, from May 2004 to October 2005. He was the project manager and later the senior project manager of IDT Electronic Products Limited, from July 1999 to May 2004. Mr. Lam is currently a member of the Institution of Engineering and Technology and a fellow member of the Hong Kong Institute of Directors. He obtained a bachelor’s degree and a master’s degree in Electronic Engineering from the City Polytechnic of Hong Kong (香港城市理工學院), currently known as the City University of Hong Kong (香港城市大學), in 1989 and 1994 respectively. He later obtained a master’s degree in Business Administration (MBA) from the Newport University which is a distance learning course in the U.S. in 1998 and a professional diploma in Corporate Governance and Directorship from the Hong Kong Institute of Directors in 2005. He has not held any directorships in any listed public companies in the last three years.

**Mr. Tan Hui Kiat (陳輝傑)**, aged 48, is our Senior Operations Director and was appointed as our executive Director on 28 November 2009. He joined us in September 2005. Mr. Tan is responsible for our programme management and interface with customers as well as being in charge of our materials division, including procurement, purchasing, PMC, logistics and warehousing in our production facilities in Jiangmen, the PRC. Mr. Tan has over 17 years of experience in operations in the electronics sector since January 1991. Prior to joining us, he worked for over 13 years, from May 1992 to April 2005, for Aztech Systems Ltd., in the positions of production manager, service manager, manufacturing manager, plant manager, and general manager of multimedia business unit

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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operations respectively. Between January 1991 and May 1992, Mr. Tan was the production manager of Microcomputer Systems(s) Pte. Ltd. Mr. Tan obtained a technician diploma in Electronics and Communication Engineering from the Singapore Polytechnic (新加坡理工學院) in 1981. He later obtained a certificate and a diploma in Industrial Management from the same polytechnic in 1986 and 1989, respectively. He has not held any directorships in any listed public companies in the last three years.

### **Independent non-executive Directors**

**Mr. Wong Chun Bong (王振邦)**, aged 51, was appointed as our independent non-executive Director on 28 November 2009. Mr. Wong has over 25 years held a range of positions relating to the provision of assurance, taxation, accounting and financial management services, which we believe will benefit our Board in the overall financial control and management of our Group. Mr. Wong obtained a higher diploma in Accountancy from the Hong Kong Polytechnic (香港理工學院), currently known as the Hong Kong Polytechnic University (香港理工大學), in 1982. Mr. Wong is currently the managing partner of a firm of certified public accountants in Hong Kong. He is the ex-chairman of the Executive Committee of the Association of Chartered Certified Accountants in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong, respectively. Mr. Wong is also an associate of the Institute of Chartered Accountants in England and Wales. He is currently an independent non-executive director of QPL International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0243).

**Mr. Lee Kwok On, Matthew (李國安)**, Ph.D., aged 50, was appointed as our independent non-executive Director on 28 November 2009. He is the associate dean (Research, Postgraduate and Executive Education) and chair professor of Information Systems & E-Commerce at the College of Business of the City University of Hong Kong (香港城市大學). Mr. Lee is also the founding director of the CityU DBA Programme. He is currently a member of the Hong Kong Research Grant Council (RGC) Business Studies Panel. He is an independent non-executive director of Computer And Technologies Holdings Limited (科聯系統集團有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 0046). Mr. Lee holds a first class honours bachelor's degree in electronic engineering from the University of Sheffield, a master's degree in science from the University of Oxford, a Ph.D. from the University of Manchester, a master's degree in business administration from the University of Sheffield and a law degree from the University of London. Mr. Lee is also a qualified barrister-at-law in Hong Kong. He has been a chartered engineer of the UK Engineering Council since October 1995 through his membership as a professional member of the British Computer Society since May 1995.

**Mr. Chan Wai (陳偉)**, aged 40, was appointed as our independent non-executive Director on 28 November 2009. Mr. Chan is currently the financial controller of Hong Kong Catering Management Limited (香港飲食管理有限公司) currently known as Doxen Energy Group Limited (東星能源集團有限公司) (Stock Code: 668 (Main Board)) since October 2009. Mr. Chan has over 17 years of experience in professional accounting, including over six years of experience in financial control with companies listed on the Main Board or Growth Enterprise Market (GEM) of the Stock Exchange, which we believe will benefit our Board in the overall financial control and management of our Group. Mr. Chan was the chief financial officer of Solartech International Holdings Ltd. (榮盛科技國際控股有限公司) (stock code: 1166 (Main Board)), from June 2008 to November 2008; the financial controller and company secretary of China Primary Resources Holdings Ltd. (中國基礎資源控股有限公司) (stock code: 8117 (GEM)), from April 2004 to May 2008 and the finance manager of The Sun's Group (H.K.) Company Limited (新銀集團有限公司) (stock code: 988 (Main



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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Board)), now known as Loudong General Nice Resources (China) Holdings Limited, from September 2002 to February 2004. Mr. Chan obtained a master’s degree in Professional Accounting from the Hong Kong Polytechnic University (香港理工大學) in 2004. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since April 1997 and a fellow of the Association of Chartered Certified Accountants since December 2002. Mr. Chan has also been an associate member of the Institute of Chartered Accountants in England & Wales since March 2007.

### **SENIOR MANAGEMENT**

Our senior management comprises our executive Directors, our Company Secretary and the following persons:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mr. Cheung Chi Keung	51	Chief Financial Officer and Company Secretary
Mr. Yu Wing Kin	40	Group Financial Controller
Mr. Tseng Yin Hoong, Allen	47	Chief Information Officer
Mr. Quek Siew Chye	45	Senior Manufacturing Director
Mr. Lee Wai Man	37	Senior Marketing and Business Director
Mr. Decena, Joel Tongo	41	Test Director
Mr. Leung Wai Chung	41	Vice President of Corporate Affairs and Communications
Mr. Lee Yen Meng	51	Vice President of Quality and Customer Care

**Mr. Cheung Chi Keung** (張志強), FCCA, CPA, aged 51, is our Chief Financial Officer and Company Secretary. He joined us in July 2008. Mr. Cheung is responsible for overseeing the investment and financial affairs, and general business development of our Group. Mr. Cheung has over 19 years of experience in the accounting sector and over 11 years in the finance sector. Prior to joining us, Mr. Cheung was the vice president (finance) of Pier 16 – Management Limited. He became a fellow of the Chartered Association of Certified Accountants, currently known as the Association of Chartered Certified Accountants, in the United Kingdom in 1991 and a fellow of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in 1989. Mr. Cheung obtained a bachelor’s degree in Social Science from the University of Hong Kong (香港大學) in 1983 and a master’s degree in Business Administration (MBA) from the Brunel University in the United Kingdom in 1997.

**Mr. Yu Wing Kin** (余永健), aged 40, is our Group Financial Controller. He joined us in May 2009. Mr. Yu is responsible for the overall accounting, financial management, treasury and corporate governance of our Group. Mr. Yu has over 13 years held a range of positions in the accounting and financial management sectors, including over 10 years of experience in the manufacturing sector. Prior to joining us, Mr. Yu was the finance manager and later the group financial controller of Bright International Group Limited (瑩輝集團有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1163). Between March 1997 and June 1998, Mr. Yu was an auditor of an international accounting firm. Mr. Yu has also worked for another accounting firm as an auditor from October 1994 to February 1997. Mr. Yu obtained a bachelor’s degree in Accountancy from the

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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University of Abertay Dundee in Scotland, the United Kingdom, in 1994. In 2003, Mr. Yu obtained a post-graduate diploma in Financial Management from the University of London, the United Kingdom. Mr. Yu is currently a member of the Six Sigma Institute in Hong Kong as a registered quality professional (RQP(GB)).

**Mr. Tseng Yin Hoong, Allen (曾元宏)**, aged 47, is our Chief Information Officer. He joined us in June 2009. Mr. Tseng is responsible for the information technology and computer systems at all levels in our Group. Mr. Tseng has extensive experience in the information technology and electronics manufacturing sectors. Prior to joining us, Mr. Tseng was the vice president of professional services and later the sales director (South China) of Valor Computerized Systems (Far East) Limited. Mr. Tseng was the general manager of Digiland (Hong Kong) Limited, from June 2005 to March 2007. Mr. Tseng obtained a bachelor’s degree of Science from the State University of New York at Buffalo in the U.S. in 1988.

**Mr. Quek Siew Chye (郭修財)**, aged 45, is our Senior Manufacturing Director. He joined us in April 2005. Mr. Quek is responsible for the control and implementation of the strategic, tactical and day-to-day manufacturing activities at our production facilities in Jiangmen, the PRC. Mr. Quek has eight years of quality assurance experience in the manufacturing sector. Prior to joining us, Mr. Quek was the operation manager of Beyonics Manufacturing Private Limited from November 2000 to April 2005. Mr. Quek obtained a bachelor’s degree in Information Technology from the University of Southern Queensland in Australia in 1996.

**Mr. Lee Wai Man (李偉文)**, aged 37, is our Senior Marketing and Business Director. He joined us in November 2007. Mr. Lee is responsible for the implementation of our marketing solutions and he plays an instrumental role in driving our demand generation worldwide. Mr. Lee has over 15 years of experience in sales and marketing, including over eight years of sales and marketing experience in the electronics sector. Prior to joining us, Mr. Lee worked for over 6 years in Taiyi Precision Tech Corp (太乙精密股份有限公司) from March 2001 to November 2007. Between July 1991 and November 1999, Mr. Lee was the sales assistant and account manager (Asia sales support) of NABS, Inc. Mr. Lee obtained a bachelor’s degree in Business Administration from the Brooklyn College of the City University of New York in the U.S. in 1996.

**Mr. Decena, Joel Tongo**, aged 41, is our Test Director. He joined us in August 1998. Mr. Decena is responsible for the creation, implementation and monitoring of testing strategies for the development of test software, hardware and procedures. Mr. Decena has over 11 years of experience in the assembly and testing of electronic products, and he has worked for our Group for over 11 years. Prior to joining us, Mr. Decena was the production head of Ionics Circuits Inc., from June 1990 to July 1996. He obtained a bachelor’ degree in Electronics and Communication Engineering from the University of Santo Tomas in the Philippines in 1990.

**Mr. Leung Wai Chung, Ray (梁偉聰)**, aged 41, is our Vice President of Corporate Affairs and Communications. He joined us in April 2009. Mr. Leung is responsible for the formation and implementation of our Group’s strategies on marketing, corporate communications and public relations. Mr. Leung has over 18 years of experience in sales and marketing, including 10 years of experience in the PCB sector and eight years of experience in the electronics sector. Prior to joining us, Mr. Leung was the manager and later the director of marketing communication of Arrow Asia Pac Ltd between 2000-2008. Mr. Leung was the sales manager and later the manager of marketing research and promotion of Elec & Eltek International Limited (依利安達國際有限公司), from October 1996 to October 2000. Mr. Leung obtained a master’s degree in Business Administration in

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Marketing from the University of Paisley in Scotland, the United Kingdom in 1998 and another bachelor’s degree in Business Administration (BBA) from the Thames Valley University in the United Kingdom in 1999. He later obtained another master’s degree in E-business from the City University of Hong Kong (香港城市大學) in 2004.

**Mr. Lee Yen Meng (李獻明)**, aged 51, is our Vice President of Quality and Customer Care. He re-joined the Group in July 2009. Mr. Lee is responsible for maintaining the standard of our entire Group’s quality matter, customer care and total quality services. Mr. Lee has been engaged in the electronics sector since 1985, starting as a test engineer, and subsequently as test engineering manager, senior foreign manager, assistant general manager and vice president, in various electronics manufacturing companies. Prior to joining us, Mr. Lee was the business unit manager of Jabil Circuits (Guangzhou) Limited (捷普電子廣州有限公司), from August 2006 to May 2009. Between August 2003 and August 2006, Mr. Lee was the manufacturing director, and later the vice president of manufacturing of World Fair Hong Kong.

### **Company Secretary**

**Mr. Cheung Chi Keung (張志強)**, FCCA, CPA, aged 51, is our Company Secretary. His biographical details are set out in the above section headed “Senior Management”.

## **DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION**

For the Track Record Period, the aggregate remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately HK\$2.4 million, HK\$4.6 million and HK\$9.2 million respectively. Details of our Directors’ remuneration are also set out in Note 29(a) to the Accountant’s Report in Appendix I in this document.

The aggregate amount of salaries and other allowances and benefits in kind paid to our five highest paid individuals for the Track Record Period was approximately HK\$3.4 million, HK\$5.9 million and HK\$9.2 million respectively.

## **NON-COMPETITION**

Each of our executive Directors and independent non-executive Directors has confirmed that none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of our Group.

## **AUDIT COMMITTEE**

We established an audit committee on 28 November 2009, with written terms of reference. [●]

The primary duties of the audit committee are to review and supervise our financial reporting processes and internal control system. At present, our audit committee consists of three independent non-executive Directors, being Mr. Wong Chun Bong, Mr. Lee Kwok On, Matthew and Mr. Chan Wai, of which Mr. Wong Chun Bong is the chairman.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **REMUNERATION COMMITTEE**

We established a remuneration committee on 28 November 2009.

The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. At present, our remuneration committee consists of three members, being Mr. Wong, Mr. Wong Chun Bong and Mr. Chan Wai, of which Mr. Wong is the chairman. Under our remuneration committee’s terms of reference, a member of the remuneration committee with a personal interest in any matter presented in a meeting of our remuneration committee shall abstain from attending the relevant meeting.

### **NOMINATION COMMITTEE**

We established a nomination committee on 28 November 2009. [●]

The primary duties of the nomination committee are to consider and recommend to the Board on the appointment of executive Directors and senior management staff. At present, our nomination committee comprises three members, being Mr. Wong, Mr. Wong Chun Bong and Mr. Chan Wai, of which Mr. Wong is the chairman.

### **STRATEGIC INTELLECTUAL PROPERTY AND TECHNOLOGY COMMITTEE**

We established a strategic intellectual property and technology committee on 28 November 2009. The primary duties of the strategic intellectual property and technology committee are to monitor the applications and protection of all the intellectual property rights of our Group and to consider and recommend to the Board on our R&D development. At present, our strategic intellectual property and technology committee comprises four members, being Mr. Wong, Mr. Lam Ho Sang and Mr. Lee Kwok On, Matthew and Mr. Cheung Chi Keung, of which Mr. Lam Ho Sang is the chairman.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **EMPLOYEES**

#### **Overview**

As at the Latest Practicable Date, we had a total headcount of 5,933 full-time employees. We have not experienced any significant problem with our employees or disruption to our operations due to labour disputes. Our Directors believe that we have a satisfactory working relationship with our employees, which is expected to continue.

The number of our Group’s full-time employees by function as at the Latest Practicable Date is as follows:

<b>Functions</b>	<b>Number of Employees</b>
Production	4,239
Quality control	594
Research and development, testing and engineering	379
General and administration	527
Sales and marketing	56
Procurement and warehouse	138
Total	<u>5,933</u>

#### **Staff Training**

Our Directors believe that our employees are among the most valuable assets of our Group and have contributed to the success of our Group. It is our policy to encourage the development and training of our employees according to their own job descriptions and needs. We not only provide pre-job training to our employees to equip them with the knowledge necessary for their respective

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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job functions, for example, our corporate culture and introduction to our products and manufacturing logistics, but also provide in-house on-the-job training specific to each of their designations to enhance their technical skills. Moreover, we work to improve the social and environmental conditions of our work sites. We implemented the Electronic Industry Code of Conduct (EICC) Manual for all of our employees on 20 February 2009.

### **Staff Benefits**

We make contributions to all mandatory funds applicable to us under the relevant PRC laws and regulations, including pension funds, unemployment insurance funds and work-related injury funds for our employees. We also voluntarily make contributions to childbearing insurance funds for our female employees. These contributions, which are funded from our internal financial resources, are in compliance with the requirements of the PRC laws and regulations.

World Fair Heshan, as a PRC entity, is obliged by law to make contributions to the medical insurance funds and housing provident funds for its employees. However, we have only commenced making contributions to the medical insurance funds and housing provident funds for the employees of our operating subsidiary, World Fair Heshan, from September 2009. World Fair Heshan had not received any orders or directives from the relevant PRC authorities to make the contributions and there had been a general reluctance of our employees to make the employees housing provident fund contributions which, if made, would have the effect of reducing their net income. We are advised by our PRC legal advisers that the statutory penalty for failing to make contributions in respect of medical insurance, in addition to payment of all unpaid medical insurance contributions, is a daily fine calculated at 0.2% of any unpaid contributions and the statutory maximum amount for failing to make contributions to the housing provident funds is RMB50,000. We have obtained a written confirmation from the Social Security Bureau of Heshan City (鶴山市社會保險基金管理局), which has jurisdiction over the Group in respect of social security and hence authority to issue such written confirmation, confirming that it will not mandatorily require wholly-foreign owned enterprises in Heshan City to make contributions to medical insurance funds. We have not made any provision for the unpaid contributions to medical insurance funds as we have been advised by our PRC legal advisers that based on the said confirmation, the risk of our Group being penalised is relatively low. We have registered the accounts with the relevant authorities for making contributions to the medical insurance funds and have made full requisite contributions commencing in September 2009 for all eligible employees. Our Group has made a provision of HK\$1,732,000 for the unpaid contributions for our existing employees in respect of housing provident funds.

Our Controlling Shareholders have agreed to fully indemnify us and hold us harmless for all potential losses, penalties, fines, damages and liabilities arising from such historical non-compliances.

In addition, we have contributed to a mandatory fund scheme for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

## **SHARE SCHEMES**

### **Share Incentive Scheme**

World Fair Tech adopted the Share Incentive Scheme on 30 September 2008 in order to recognise the contributions of the Awarded Employees to our Group. For details of the Share Incentive Scheme, please refer to the section headed “Statutory and General Information – Share Schemes – Share Incentive Scheme” in Appendix VI in this document.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **Share Option Scheme**

We have conditionally adopted the Share Option Scheme on 31 May 2010. The purpose of the Share Option Scheme is to provide incentive or reward to our eligible employees for their contributions to, and continuing efforts to promote the interests of our Group and to enable our Group to recruit and retain employees of high calibre. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information – Share Schemes – Share Option Scheme” in Appendix VI in this document.

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## **SHARE CAPITAL**

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### **SHARE CAPITAL**

Our authorised share capital as of the date of this document are as follows:

	<i>HK\$</i>
<b>Authorised share capital:</b>	
3,500,000,000 Shares	350,000,000



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## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [●] and based on the information available on the Latest Practicable Date [●], the following persons will have interests or short positions in any of our Shares or underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

Name of Shareholder	Long/Short Position	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)
Soar Plan <i>(Note)</i>	Long position	Registered owner	[●]	[●]
Swan Hills <i>(Note)</i>	Long position	Interest in a controlled corporation	[●]	[●]
The KW Trust <i>(Note)</i>	Long position	Interest in a controlled corporation	[●]	[●]
Trustee <i>(Note)</i>	Long position	Trustee	[●]	[●]
Mr. Wong <i>(Note)</i>	Long position	Settlor of The KW Trust	[●]	[●]
Ms. Ching <i>(Note)</i>	Long position	Beneficiary of The KW Trust	[●]	[●]
Ms. Ching	Long position	Registered owner	[●]	[●]

*Note:* The entire issued share capital of Soar Plan is held by Swan Hills which is in turn ultimately held by the Trustee (through two nominee companies) as the trustee of The KW Trust. The KW Trust is a discretionary trust established by Mr. Wong as settlor and the Trustee as trustee on 1 December 2009. The beneficiaries of The KW Trust include family members of Mr. Wong and Ms. Ching. Mr. Wong and Ms. Ching are deemed to be interested in the 1,927,778,827 Shares held by The KW Trust, Soar Plan and Swan Hills immediately upon completion of [●] pursuant to Part XV of the SFO and their respective interests duplicate the interests held by The KW Trust, Soar Plan and Swan Hills.

Saved as disclosed above, our Directors are not aware of any person who will, immediately following completion of [●], have interests or short positions in any of our Shares or underlying shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

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## **FINANCIAL INFORMATION**

**You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as at and for each of the years ended 31 December 2007, 2008 and 2009 and the accompanying notes included in the accountant’s report set out in Appendix I in this document. The accountant’s report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountant’s report set out in Appendix I in this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed “Risk Factors” in this document.**

### **OVERVIEW**

We are a leading provider of capacitive touch pads by volume for use in notebook computers. Touch pad was our core product and revenue driver during the Track Record Period. We also produced touch screens and multi-media buttons.

We have engaged in the touch pad business for over 10 years, during which we have provided capacitive touch pads to Synaptics, a global leader in capacitive touch pads, such that we have become one of the world’s leading capacitive touch pad suppliers for notebook computers by volume. From 2004 to 2009, we sold approximately 306.0 million capacitive touch pads in total. According to iSuppli Corporation, during the same period, global capacitive touch pad shipments for the notebook computers segment were estimated to be approximately 579.0 million, and the global shipments for notebook computers were estimated to be approximately 578.2 million, respectively. We obtain the ICs for our touch pads on a consignment basis.

We believe that our circuit assembly experience coupled with our know-how in the control of the production environment have been the main contributing factors in establishing and sustaining our long-term business relationship with Synaptics.

We believe that there is an increasing awareness in data security protection, which has resulted in a growing interest in biometric products and authentication devices. Accordingly, we commenced the manufacturing of fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we sell a portion of our fingerprint biometric devices. In addition, we have designed and developed a series of fingerprint biometric products, which have yet to be commercialised, under our own “C-touch” brand using fingerprint sensors sourced externally from the same customer, with the aim to provide customers with affordable and convenient devices to protect personal data against possible loss or leakage while using consumer electronics.

During the Track Record Period, we also offered contract manufacturing services for a range of products, including electrical components for drilling equipment automotive devices and medical equipment, to our customers. These products were not a main source of revenue during the Track Record Period but they offered valuable opportunities for us to diversify our customer base and to form technology partnerships with our customers.

Our production base is in Heshan city, Jiangmen, Guangdong province in southern China, where our main production and R&D facilities are located. As at the Latest Practicable Date, we had 32 high speed SMT lines and 70 wire bonding machines for COB/COF assembly in our production plants in Jiangmen. Our owned main production base at the New Material Base in Gonghe Town,

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## **FINANCIAL INFORMATION**

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Heshan city, the PRC, has a site area of approximately 125,000 sq.m. We also lease another production site of a total area of approximately 7,800 sq.m. in Heshan city nearby, from an Independent Third Party.

We have obtained accreditations including ISO9001:2008 in respect of our quality management systems and ISO 14001:2004 in respect of our environmental management systems. We have received CE and FCC certifications in respect of our fingerprint segment and have been awarded with certificates of compliance from international conformity assessment authorities. Furthermore, we have also obtained other ISO accreditations for our other products.

In recent years, we have progressed further into developing our own R&D capabilities and devoting additional resources in technological advancement. In the year ended 31 December 2008, our R&D team has achieved breakthroughs in developing various new fingerprint applications and standalone product designs. Between October 2008 and April 2010, we were granted 16 patents and designs and further applied for 46 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States.

### ***Going forward***

Envisaging continuing growth of the capacitive touch interface market and long-term customer relationships, we aim to maintain our focus on capacitive touch products as our main and stable source of revenue generation and within the touch product segment, we plan to focus more on touch screens. We plan to enhance and upgrade our production and testing equipment for touch screen related products for customers including Synaptics. In parallel, we will strive to reduce our dependence on one particular business segment by the manufacturing of fingerprint biometric devices, wireless charging devices and plasma lighting products which we believe have potentials for growth.

In relation to our investment and treasury policies in the future, our Directors intend to take a conservative approach in relation to our investment strategy and continue to focus on our core business development, which includes enhancing the competitiveness of our capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices. Our Directors confirm that we do not expect to engage in further investment of financial products. We may, only if and when our Directors consider necessary, enter into foreign exchange hedging contracts in respect of RMB and US\$.

Over the years, we have emerged as a provider of “life-technology” by supplying products and technologies which are used to facilitate everyday life, be it from computer navigation to automobile navigation or data security authentication to lighting applications. Going forward, we wish to continue this vision of being a provider of “life-technology” to consumers and at the same time, introduce further cutting-edge technologies for wider applications in daily life.

### **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The companies comprising our Group underwent the Reorganisation to rationalise our corporate structure and as a result our Company became the holding company of our Group. Please refer to the section headed “Statutory and General Information – The Reorganisation” in Appendix VI in this document for details. The Reorganisation has been accounted for as a reorganisation of business under common control using the principle of merger accounting. Accordingly the financial information prepared presents the consolidated results of operation, cashflow and financial position of our Group as if the current group structure upon completion of the Reorganisation had been in existence throughout the

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## FINANCIAL INFORMATION

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Track Record Period or since the respective dates of incorporation or establishment of the relevant member(s) of our Group, whichever is earlier.

All significant intra-group transactions and balances have been eliminated on consolidation.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition and results of operations over the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed “Risks Factors” in this document and as set forth below:

- **Product mix**

During the Track Record Period, capacitive touch products were our major revenue driver, which accounted for approximately 91.2%, 96.3% and 77.6%, respectively, of our total revenue during the same period. During the Track Record Period, our overall gross profit margins were approximately 22.6%, 21.9% and 29.1%, respectively.

Our gross profit margins are partially affected by the proportion of sales of our products with higher gross profit margins compared to sales of our products with lower gross profit margins. Our fingerprint biometric devices, lighting source products and wireless charging devices commanded higher gross profit margins (approximately 42.2%, 37.9% and 29.8%, respectively) compared to capacitive touch products (approximately 27.6%) in the year ended 31 December 2009. Going forward, we may continue to adjust our product mix in response to demand and pricing for each product.

- **Increase in production capacity**

In order to expand our production lines, we relocated our production facilities from Hong Kong to Jiangmen. Since then, we have been expanding the scale of our operations, especially through the expansion of our production facilities in Jiangmen. Our capital expenditures for property, plant and equipment during the Track Record Period were approximately HK\$37.9 million, HK\$93.9 million and HK\$133.3 million, respectively. The increase in our capital expenditures for property, plant and equipment was mainly due to the expansion of our production facilities to accommodate more production lines, as well as the purchase of SMT machines during the Track Record Period. Going forward, we expect that capital expenditure increases relating to the expansion of our production capacity should have a positive impact on our results of operations.

- **Costs of raw materials**

Costs of raw materials represent a significant portion of our cost of sales. For each of the three years ended 31 December 2009, such costs represented approximately 82.8%, 79.5% and 77.2%, respectively, of our cost of sales. As such, any significant fluctuation in the price of raw materials may have a significant impact on our profitability.

Our raw materials mainly include PCBs, connectors, flex cables, plastic base, power cables and diodes. In recent years, we have experienced price fluctuations for some raw materials due to various factors including changes in demand and supply for commodities. Nevertheless, we have been able to reduce, to a limited extent, the impact of price fluctuations of raw materials by bulk purchase of these materials. In addition, we believe that our long-term relationships with our major suppliers enhances our bargaining power and ability to obtain better prices.

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- **Market competition**

We are one of the largest capacitive touch pad providers in the world by volume. According to iSuppli Corporation, the market for mobile computing devices such as notebook computers, MP3 players and smart phones is expected to expand due to an increase in the popularity of mobile computing. As a result, the market for capacitive touch pads, which are found in essentially all notebook and netbook computers, is also expected to grow in the coming five years. Global touch pad revenue, as estimated by iSuppli Corporation, is expected to increase from approximately US\$537 million in 2009 to US\$983 million in 2013, representing a CAGR of approximately 16.3%.

Our customers include Synaptics, a global leader in capacitive touch pads, which has been our long-term strategic partner and largest customer during the Track Record Period. Our Directors believe that our 10-year relationship with Synaptics, along with our strengths in cost and quality, gives us a competitive advantage over our competitors in the capacitive touch pad industry. However, we are aware of a number of other contract manufacturers in the capacitive touch pad industry, so our future sales and profitability may more or less be affected by these competitors.

- **Taxation**

Our profitability will also be affected by changes in tax rates, particularly the applicable tax rates in the PRC as we operate in and derive part of our revenue and profits from the PRC. We expect no significant change in tax rates in other jurisdictions where our Group operates.

On 16 March 2007, the National People’s Congress of the PRC promulgated the Enterprise Income Tax Law of the PRC, which came into effect on 1 January 2008. The implementation of the Enterprise Income Tax Law has an effect on the level of income tax that we pay and the preferential tax treatment that we are entitled to. According to the income tax law of the PRC in effect before 1 January 2008, foreign invested enterprises (**FIEs**) which are manufacturers with more than ten years of operations are exempt from paying enterprise income tax in the PRC for the first two years starting from the year when the FIEs begin to make a taxable profit after deducting any losses that may be carried over from previous years, and thereafter enjoy a preferential tax rate with a 50.0% reduction for the following three years. Under the Enterprise Income Tax Law, the normal income tax rate of PRC business entities is reduced to 25.0%. It allows businesses that were entitled to an enterprise income tax rate lower than 25.0% before 1 January 2008 a five-year grace period to transition to the higher income tax rate of 25.0%.

Our subsidiary in the PRC is qualified for such tax preferential treatment. For the years ended 31 December 2008 and 2009, we were exempted from paying enterprise income tax in the PRC and for the years ended 31 December 2010 to 2012, we will be entitled to enjoy a 50.0% reduction in tax rate to 12.5%.

We intend to apply for a High-Technology Enterprise Certificate (高新技術企業認定證書) and we would, if such certificate was granted to us, enjoy further preferential tax rates in the future.

## **CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of our financial position and results of operations as included in this document is based on the consolidated financial statements prepared using the significant

## **FINANCIAL INFORMATION**

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accounting policies set forth in Note 4 to the Accountant’s Report set out in Appendix I in this document, which conform with the HKFRS. The critical accounting estimates and judgements that we use in applying our accounting policies are set out in Note 6 to the Accountant’s Report set out in Appendix I in this document. Such estimates and judgement are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions or conditions.

Below is a summary of certain significant accounting policies that we believe are important to the presentation of our financial results and positions. We also have other accounting policies that we consider to be significant, the details of which are set forth in Note 4 to the Accountant’s Report set out in Appendix I in this document.

### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within our Group.

We recognise revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Sundry income

Sundry income is recognised when the right to receive payment is established.

### **Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	2.5%
– Leasehold improvements, furniture and fixtures and office equipment	10 to 50%
– Machinery	10%
– Computer equipment	20 to 50%
– Motor vehicles	10 to 25%

Construction-in-progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for our use. They are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the amounts are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

Our assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see Note 4.9 to the Accountant’s Report).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the

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trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off in the consolidated income statement within “administrative expenses”. Subsequent recoveries of amounts previously written off are credited against “administrative expenses” in the consolidated income statement.

### RESULTS OF OPERATIONS

The following table presents selected financial data from our Group’s consolidated income statement for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, which are derived from, and should be read in conjunction with, the consolidated financial information set forth in the Accountant’s Report included in Appendix I in this document. As more fully described in the Accountant’s Report included as Appendix I in this document, the financial information was prepared in accordance with HKFRS.

	<b>Year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	674,293	749,788	888,348
Cost of sales	<u>(521,845)</u>	<u>(585,701)</u>	<u>(629,802)</u>
Gross profit	152,448	164,087	258,546
Other income/(losses) – net	19,045	(443)	1,198
Distribution costs	(6,262)	(4,242)	(6,135)
Administrative expenses	<u>(57,116)</u>	<u>(57,926)</u>	<u>(81,727)</u>
Operating profit	108,115	101,476	171,882
Finance income	539	227	265
Finance costs	<u>(11,253)</u>	<u>(4,780)</u>	<u>(8,454)</u>
Finance costs – net	<u>(10,714)</u>	<u>(4,553)</u>	<u>(8,189)</u>
Profit before income tax	97,401	96,923	163,693
Income tax expense	<u>(17,775)</u>	<u>(10,878)</u>	<u>(10,563)</u>
Profit for the year	<u><u>79,626</u></u>	<u><u>86,045</u></u>	<u><u>153,130</u></u>
Attributable to:			
Equity holders of our Company	79,626	86,045	151,655
Minority interests	<u>–</u>	<u>–</u>	<u>1,475</u>
	<u><u>79,626</u></u>	<u><u>86,045</u></u>	<u><u>153,130</u></u>
Dividends	<u><u>51,000</u></u>	<u><u>–</u></u>	<u><u>51,000</u></u>



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### PRINCIPAL INCOME STATEMENT COMPONENTS

#### Revenue

We derive our revenue principally from the manufacture and sale of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products. Our total revenue increased from HK\$674.3 million for the year ended 31 December 2007 to HK\$888.3 million for the year ended 31 December 2009, representing a CAGR of 14.8%.

The following table sets out the breakdown of our revenue and the percentage of total revenue for the three years ended 31 December 2007, 2008 and 2009:

<i>Revenue from</i>	<b>Year ended 31 December</b>					
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Capacitive touch products	614,727	91.2%	722,158	96.3%	689,364	77.6%
Fingerprint biometric devices	–	0.0%	69	0.0%	42,281	4.8%
Lighting source <sup>Note 1</sup>	40,962	6.1%	4,849	0.6%	17,775	2.0%
Wireless charging devices	–	0.0%	–	0.0%	102,431	11.5%
Others <sup>Note 2</sup>	<u>18,604</u>	<u>2.7%</u>	<u>22,712</u>	<u>3.1%</u>	<u>36,497</u>	<u>4.1%</u>
<b>Total</b>	<b><u>674,293</u></b>	<b><u>100%</u></b>	<b><u>749,788</u></b>	<b><u>100%</u></b>	<b><u>888,348</u></b>	<b><u>100%</u></b>

*Note:*

1. Consists of plasma light projectors and plasma street lamps.
2. Other products include automotive devices, plastic components, medical light-emitting diode products and mining machine system products.

Revenue derived from our capacitive touch products increased from approximately HK\$614.7 million for the year ended 31 December 2007 to approximately HK\$689.4 million for the year ended 31 December 2009, representing a CAGR of 5.9%. The capacitive touch products we produced mainly include capacitive touch pads, multi-media buttons and touch screens. Prior to the Track Record Period, the average selling price of our capacitive touch pads decreased by 11.5% from the year ended 31 December 2004 to the year ended 31 December 2005, whereas the average selling price of touch pads decreased by 7.6% in the year ended 31 December 2006 due to the reduction in sizes of PCBs used in capacitive touch pads as a result of technological advancement. During the Track Record Period, there was a gradual decrease in the average selling price of our capacitive touch pads. The decrease in the average selling price of our capacitive touch pads was mainly attributable to factors including general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market. Prior to the Track Record Period, we recorded an increase of 9.1% in the sales volume of capacitive touch pads between the years ended 31 December 2004 and 2005, which was in line with the increasing worldwide demand of touch pads during the year ended 31 December 2005. In relation to the sales volume of our capacitive touch pads during the year ended 31 December 2006, there was an increase of 9.0% in the sales volume when compared to the year ended 31 December 2005, which was mainly due to the temporary suspension of some of our production lines resulting from the relocation of our production facilities from Hong Kong to Jiangmen during the year ended 31 December 2006. For a

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detailed analysis of the fluctuations in sales volume and average selling price of our capacitive touch pads during the Track Record Period, please refer to the sections headed “Period to Period Comparison of Results of Operations – Year Ended 31 December 2009 Compared to Year ended 31 December 2008 – Revenue” and “Period to Period Comparison of Results of Operations – Year Ended 31 December 2008 Compared to Year Ended 31 December 2007 – Revenue” below in this section.

Our Directors believe that despite the decreasing trend in the average selling price of our capacitive touch products during the Track Record Period, the gross profit margins of our capacitive touch products remained relatively stable at approximately 20.8% and 21.1% respectively for the two years ended 31 December 2007 and 2008. The gross profit margins of our capacitive touch products increased to 27.6% for the year ended 31 December 2009. Such increase was due to the fact that our Group had negotiated with its suppliers during the year ended 31 December 2009 for a bulk purchase discount of raw materials, which had in turn resulted in a decrease in average unit production cost, and the effect of such lowering in average unit production cost outweighed the slight decrease in selling price. The said increase in gross profit margins was also due to the fact that the sales of capacitive touch screens, which have a higher gross profit margin (of approximately 34.3%) as compared to capacitive touch pads, increased significantly from the year ended 31 December 2008 to the year ended 31 December 2009. Furthermore, we consider the decreasing price trend to be in line with the electronics industry norm – as a technology becomes increasingly mature and more commonly applied, the relevant products tend to experience a gradual decrease in price as a result of lower production costs. Hence, our Directors do not consider the decrease in selling prices in capacitive touch products to pose a risk to our Group’s business or future financial position, since we have improved our production efficiency and have also taken various cost reduction initiatives to lower our production costs.

Capacitive touch products represented our core product and revenue driver during the Track Record Period, which amounted to approximately 91.2%, 96.3% and 77.6% of our total revenue, respectively. Since 2007, we have been gradually increasing efforts to diversify our product mix including new capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices, which command higher profit margins.

Revenue derived from lighting source products amounted to approximately HK\$41.0 million for the year ended 31 December 2007, which subsequently decreased to approximately HK\$4.8 million for the year ended 31 December 2008 and increased to approximately HK\$17.8 million for the year ended 31 December 2009. During the year ended 31 December 2008, the main product for the lighting source products segment expanded from plasma light projectors to include plasma lighting rear projection TV, which had insignificant revenue contribution. For the year ended 31 December 2009, the increase in revenue derived from lighting source products was mainly due to the increase in sales volume for plasma street lamps and plasma light projectors.

In August 2009, we received our first order for our newly developed wireless charging devices. Revenue derived from our wireless charging devices segment during the year ended 31 December 2009 amounted to approximately HK\$102.4 million.

For a detailed analysis of the fluctuations in revenue from sales of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products, please refer to the sections headed “Period to Period Comparison of Results of Operations – Year Ended 31 December 2009 Compared to Year ended 31 December 2008 – Revenue” and “Period to Period Comparison of Results of Operations – Year Ended 31 December 2008 Compared to Year Ended 31 December 2007 – Revenue” below in this section.

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### Cost of sales

Our cost of sales mainly consists of costs of raw materials, direct labour costs, depreciation, consumable parts and R&D expenses (production). The following table sets out the breakdown of our costs of sales as a percentage of total costs of sales for the years indicated.

	Year ended 31 December					
	2007		2008		2009	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Cost of raw materials	431,850	82.8%	465,494	79.5%	486,387	77.2%
Direct labour costs	50,479	9.7%	75,387	12.9%	84,964	13.6%
Depreciation	14,043	2.7%	14,400	2.5%	26,715	4.2%
Consumable parts	5,620	1.1%	11,764	2.0%	17,681	2.8%
R&D expenses (production)	2,283	0.4%	2,045	0.3%	–	0.0%
Others	17,570	3.3%	16,611	2.8%	14,055	2.2%
<b>Total</b>	<b><u>521,845</u></b>	<b><u>100%</u></b>	<b><u>585,701</u></b>	<b><u>100%</u></b>	<b><u>629,802</u></b>	<b><u>100%</u></b>

### Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin for our products for the years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
<b>Gross profit</b>	<b><u>152,448</u></b>	<b><u>164,087</u></b>	<b><u>258,546</u></b>
	Year ended 31 December		
	2007	2008	2009
	(%)	(%)	(%)
Capacitive touch products	20.8	21.1	27.6
Fingerprint biometric devices	N/A	33.3	42.2
Lighting source	35.0	35.8	37.9
Wireless charging devices	N/A	N/A	29.8
Others	55.4	42.9	35.2
<b>Overall</b>	<b>22.6</b>	<b>21.9</b>	<b>29.1</b>

Gross profit margin for our capacitive touch products increased from approximately 20.8% for the year ended 31 December 2007 to approximately 21.1% for the year ended 31 December 2008 and then further increased to 27.6% for the year ended 31 December 2009. Our gross profit was driven primarily by an increase in the proportion of our non-touch products and the increase in gross profit from our capacitive touch products. Our overall gross profit margin decreased from approximately 22.6% for the year ended 31 December 2007 to approximately 21.9% for the year ended 31 December 2008 and then increased to approximately 29.1% for the year ended 31 December 2009.

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For the year ended 31 December 2008, our gross profit margins dropped slightly from the immediately preceding year since there was a shortage of staff in the labour market in 2008, resulting in our having to pay for higher recruitment costs and resulting in an increase in direct labour costs for the year ended 31 December 2008. For the year ended 31 December 2009, the significant increase in gross profit margins was mainly due to our expanded product portfolio and our engagement in the production of more lighting source products, fingerprint biometric devices and wireless charging devices, all of which carry higher gross profit margins.

### Other income/(losses) – net

Other income/(losses) – net mainly includes gain on disposals of financial assets at fair value through profit or loss, and loss on disposals of property, plant and equipment.

During the Track Record Period, we had net other income of approximately HK\$19.0 million, net other losses of HK\$0.4 million and net other income of HK\$1.2 million, respectively. The net other income for the year ended 31 December 2007 was mainly derived from the gain on disposal of financial assets at fair value (mainly investments in listed shares) of approximately HK\$25.1 million during that period.

### Distribution costs

Our distribution costs mainly consist of freight and transportation costs and promotional expenses.

For the years ended 31 December 2007, 2008 and 2009, our distribution costs were approximately HK\$6.3 million, HK\$4.2 million and HK\$6.1 million, respectively.

	<b>Year ended 31 December</b>					
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Freight and transportation costs	6,101	97.4%	3,872	91.3%	5,648	92.1%
Promotional expenses	70	1.1%	307	7.2%	246	4.0%
Others	91	1.5%	63	1.5%	241	3.9%
<b>Total</b>	<b><u>6,262</u></b>	<b><u>100%</u></b>	<b><u>4,242</u></b>	<b><u>100%</u></b>	<b><u>6,135</u></b>	<b><u>100%</u></b>

### Administrative expenses

Our administrative expenses mainly consist of staff costs, rental and management fees, travelling and entertainment expenses, depreciation, office expenses and R&D expenses (administrative).

Administrative expenses were approximately HK\$57.1 million for the year ended 31 December 2007 and remained stable at approximately HK\$57.9 million for the year ended 31 December 2008,

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but subsequently increased to approximately HK\$81.7 million for the year ended 31 December 2009. The increase in administrative expenses for the year ended 31 December 2009 was mainly attributable to the combined effects of increases in administrative staffs costs, depreciation, office expenses and R&D expenses (administrative) during this period.

	Year ended 31 December					
	2007		2008		2009	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Staff costs	25,283	44.3%	22,712	39.2%	34,162	41.8%
Office expenses	7,777	13.6%	6,228	10.8%	8,418	10.3%
R&D expenses (administrative)	7,395	12.9%	10,190	17.6%	11,091	13.6%
Depreciation	4,187	7.3%	4,848	8.4%	6,240	7.6%
Travelling & entertainment expenses	3,399	6.0%	3,232	5.6%	5,072	6.2%
Rental and management fees	2,008	3.5%	2,238	3.9%	4,109	5.0%
Repair and maintenance	1,485	2.6%	554	1.0%	375	0.5%
Recruitment expenses	47	0.1%	173	0.3%	1,337	1.6%
Bank charges	656	1.1%	1,004	1.7%	1,840	2.3%
Insurance expenses	790	1.4%	372	0.6%	1,176	1.4%
Legal and Professional fees	226	0.4%	2,294	4.0%	1,953	2.4%
Miscellaneous <sup>(Note 1)</sup>	3,863	6.8%	4,081	6.9%	5,954	7.3%
<b>Total</b>	<b><u>57,116</u></b>	<b><u>100%</u></b>	<b><u>57,926</u></b>	<b><u>100%</u></b>	<b><u>81,727</u></b>	<b><u>100%</u></b>

*Note:*

- Miscellaneous mainly consists of audit fees, foreign exchange differences, consumables, stamp duty, other taxes and donations made to charity.

### Operating profit

For the years ended 31 December 2007, 2008 and 2009, our operating profit was approximately HK\$108.1 million, HK\$101.5 million and HK\$171.9 million, respectively.

### Finance costs – net

Our finance income is interest income on bank deposits. Our finance costs consist primarily of interest on bank loans, bank overdrafts and trust receipt loans, and finance lease obligations.

For the years ended 31 December 2007, 2008 and 2009, our net finance costs were approximately HK\$10.7 million, HK\$4.6 million and HK\$8.2 million, respectively.

### Income tax expense

Hong Kong profits tax has been provided for at the rates of 17.5%, 16.5% and 16.5% on the estimated assessable profit for the years ended 31 December 2007, 2008 and 2009, respectively.

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The PRC statutory income tax rate applicable to World Fair Heshan, our PRC subsidiary, is 25%. Pursuant to the relevant tax regulations in the PRC, World Fair Heshan is eligible for an exemption from the PRC enterprise income tax for the years ended 31 December 2008 and 2009 (as 2008 was its first profit making year), followed by a 50% reduction for the three immediately following years. Withholding income tax of 5% is also imposed on dividends relating to profits earned by World Fair Heshan from 2008 onwards in case these profits are intended to be distributed to its Hong Kong holding company.

Our effective tax rates during the Track Record Period were 18.2%, 11.2% and 6.5%, respectively. The change in the effective tax rate in subsequent years is caused by an increase in the profitability of the Group’s subsidiary in the PRC and the reduction in the Hong Kong tax rate from 17.5% to 16.5% during the year ended 31 December 2008.

### **PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS**

#### **Year ended 31 December 2009 compared to Year ended 31 December 2008**

##### **Revenue**

Our revenue for the year ended 31 December 2009 was approximately HK\$888.3 million representing an increase of HK\$138.5 million, or 18.5%, compared with revenue of HK\$749.8 million for the year ended 31 December 2008.

Revenue derived from capacitive touch products decreased from approximately HK\$722.2 million to HK\$689.4 million, or by 4.5%, from the year ended 31 December 2008 to 31 December 2009. Despite the increase in sales volume of 3.1% of our touch pads during 2009, the net effect of a decrease in sales price per unit resulted in a decline in overall revenue from touch products.

Our Directors believe that the increase in sales volume of our capacitive touch pads in the year ended 31 December 2009 was in line with the decreasing price trend and increase in global demand for touch pads used in notebook computers during the same period according to the iSuppli Touch Report, as well as the increase in revenue from sales to Synaptics, our major customer of capacitive touch pads. Furthermore, we were not aware of any significant competitors having entered into the market due to the high entry barriers of our business. The increase in our production capacity, production efficiency and ability to cope with shorter production delivery dates contributed to an increase in sales orders from our customers.

The decrease of 8.8% in our average touch pad selling price for the year ended 31 December 2009 was mainly attributable to general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, a general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

In addition to our core capacitive touch products, we began to diversify into new products during the second half of 2008. We launched our fingerprint biometric devices in the second half of 2008 and derived approximately HK\$69,000 and HK\$42.3 million of revenue from such sales

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during the years ended 31 December 2008 and 31 December 2009, respectively. The significant increase in revenue from fingerprint biometric devices was mainly due to increased sales orders during the fourth quarter of 2009.

We also commenced our commercial production of wireless charging devices in the second half of 2009 and derived revenue of approximately HK\$102.4 million during the year ended 31 December 2009.

The increase in revenue derived from lighting source products from approximately HK\$4.8 million for the year ended 31 December 2008 to HK\$17.8 million for the year ended 31 December 2009 was mainly due to the increase in sales volume of our plasma street lamp products.

### **Cost of sales**

Cost of sales for the year ended 31 December 2009 was approximately HK\$629.8 million, representing an increase of HK\$44.1 million, or 7.5%, compared with HK\$585.7 million for the year ended 31 December 2008. The increase in cost of sales was proportionally less than the increase in our total revenue, and was primarily due to the discounts we obtained for raw materials as a result of bulk purchases.

### **Gross profit**

Gross profit for the year ended 31 December 2009 was approximately HK\$258.5 million, representing an increase of HK\$94.4 million, or 57.5%, from HK\$164.1 million for the year ended 31 December 2008. Our gross profit margin for the year ended 31 December 2009 was 29.1%, compared with 21.9% for the year ended 31 December 2008. The increase in gross profit margin was primarily caused by increased sales of products with higher gross profit margins, including fingerprint biometric devices, lighting source products and wireless charging devices.

We launched our fingerprint biometric devices in the second half of 2008 and the gross profit margin for this product was approximately 42.2% during the year ended 31 December 2009. We also commenced production of wireless charging devices in August 2009 and the gross profit margin for this product was approximately 29.8% during the same period. As for our lighting source segment, the aggregate gross profit margin for the year ended 31 December 2009 was approximately 37.9%.

### **Other income/(losses) – net**

Net other income for the year ended 31 December 2009 was approximately HK\$1.2 million, compared to a net loss of HK\$0.4 million for the year ended 31 December 2008.

### **Distribution costs**

Distribution costs for the year ended 31 December 2009 were approximately HK\$6.1 million, representing an increase of HK\$1.9 million, or 45.2%, as compared to HK\$4.2 million for the year ended 31 December 2008. Such increase was caused by the increased sales volume and the delivery cost of machineries acquired during the year ended 31 December 2009.

## **FINANCIAL INFORMATION**

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### **Administrative expenses**

Administrative expenses for the year ended 31 December 2009 were approximately HK\$81.7 million, representing an increase of HK\$23.8 million, or 41.1%, as compared to HK\$57.9 million for the year ended 31 December 2008. Such increase was due to the recruitment of more senior management staff in anticipation of our Group’s expansion and the recognition of expenses relating to the Share Incentive Scheme. The combined effect was a significant increase of HK\$11.5 million in staff costs. Moreover, our R&D expenses also increased by HK\$0.9 million due to increased expenditures on new technologies for products such as fingerprint applications, touch screens, multi-media buttons and lighting source. Our rental and management expenses during the year ended 31 December 2009 were approximately HK\$4.1 million, representing an increase of approximately HK\$1.9 million compared to the year ended 31 December 2008, which was mainly attributable to the additional rents we paid in relation to our new offices in Hong Kong and Taiwan. The increase in office expenses from approximately HK\$6.2 million during the year ended 31 December 2008 to approximately HK\$8.4 million during the year ended 31 December 2009 was mainly due to the opening of our Taiwan office during the year ended 31 December 2009.

### **Finance costs – net**

Our net finance costs for the year ended 31 December 2009 were approximately HK\$8.2 million, representing an increase of HK\$3.6 million, or 78.3%, from HK\$4.6 million for the year ended 31 December 2008. Such increase primarily resulted from an increase in bank loans, bank overdrafts and trust receipt loans facilities.

### **Profit before income tax**

As a result of the aforementioned factors, profit before income tax for the year ended 31 December 2009 was approximately HK\$163.7 million, representing an increase of approximately HK\$66.8 million, or 68.9%, from HK\$96.9 million for the year ended 31 December 2008.

### **Income tax expense**

Income tax expense for the year ended 31 December 2009 was approximately HK\$10.6 million, representing a decrease of approximately HK\$0.3 million, or 2.8%, from HK\$10.9 million for the year ended 31 December 2008. Our effective tax rate decreased from 11.2% for the year ended 31 December 2008 to 6.5% for the year ended 31 December 2009. The lower effective tax rate during such period was caused by an increase in the profitability of our subsidiary in the PRC, which has a lower effective tax rate due to tax exemption.

### **Profit for the year**

For the year ended 31 December 2009, our profit was approximately HK\$153.1 million, representing an increase of approximately HK\$67.1 million, or 78.0%, from approximately HK\$86.0 million for the year ended 31 December 2008.



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### **Year Ended 31 December 2008 Compared To Year Ended 31 December 2007**

#### **Revenue**

Revenue for the year ended 31 December 2008 was approximately HK\$749.8 million, an increase of approximately HK\$75.5 million, or 11.2%, compared to HK\$674.3 million for the year ended 31 December 2007. The significant increase in revenue was primarily due to a 9.0% increase in the sales volume of capacitive touch pads for the year ended 31 December 2008. Our Directors believe that the increase in sales volume of our capacitive touch pads for the year ended 31 December 2008 was in line with the decreasing price trend and increase in global demand for touch pads used in notebook computers during the same period as reported by the iSuppli Touch Report, as well as the increase in revenue from sales to Synaptics, our major customer of capacitive touch pads. Furthermore, we were not aware of any significant competitors having entered into the market due to the high entry barriers of our business. The increase in our production capacity, production efficiency and ability to cope with shorter production delivery dates contributed to an increase in sales orders from our customers.

During the same period, the average selling price of touch pads per unit decreased by 8.8%, which was mainly attributable to general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

We had also launched our fingerprint biometric devices in the second half of 2008 which accounted for a limited amount of revenue to our Group for the year ended 31 December 2008. In relation to revenue from lighting source products, as a result of a shift in our lighting products customer's demand from plasma light projectors to plasma light products, our revenue decreased from HK\$41.0 million in the year ended 31 December 2007 to HK\$4.8 million in the year ended 31 December 2008.

#### **Cost of sales**

Cost of sales for the year ended 31 December 2008 was HK\$585.7 million, an increase of HK\$63.9 million, or 12.2%, compared with HK\$521.8 million for the year ended 31 December 2007. Such increase was primarily due to an increase in our direct labour costs from HK\$50.5 million for the year ended 31 December 2007 to HK\$75.4 million for the year ended 31 December 2008 as a result of an increase in staff head count and staff wages. The increase in staff head count also resulted in an increase in consumable parts (which include the cost of staff uniforms) of approximately HK\$6.1 million.

#### **Gross profit**

Gross profit for the year ended 31 December 2008 was approximately HK\$164.1 million, an increase of approximately HK\$11.7 million, or 7.7%, from HK\$152.4 million for the year ended 31 December 2007. Our overall gross profit margin for the year ended 31 December 2008 was 21.9%, a slight decrease from 22.6% for the year ended 31 December 2007. The change in our overall gross profit margin was mainly caused by higher labour costs as a result of labour shortage in 2008 and the installation of our BAAN ERP system, both of which increased our costs of sales.

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### **Other income/(losses) – net**

Net other losses for the year ended 31 December 2008 were approximately HK\$0.4 million, compared with net other income of HK\$19.0 million for the year ended 31 December 2007. During the year ended 31 December 2007, we recorded a gain from our disposal of financial assets at fair value (mainly investments in listed shares) of HK\$25.1 million, which was partially offset by a HK\$6.7 million loss on disposal of property, plant and equipment.

### **Distribution costs**

Distribution costs for the year ended 31 December 2008 were approximately HK\$4.2 million, representing a decrease of approximately HK\$2.1 million, or 33.3%, as compared to HK\$6.3 million for the year ended 31 December 2007. The decrease was mainly caused by our adopting a more cost effective method of delivery, namely, from transporting by sea and road for the year ended 31 December 2007 to transporting by road only for the year ended 31 December 2008, which had resulted in lower freight and transportation costs.

### **Administrative expenses**

Administrative expenses for the year ended 31 December 2008 were approximately HK\$57.9 million, representing a slight increase of HK\$0.8 million, or 1.4%, as compared to HK\$57.1 million for the year ended 31 December 2007. The slight increase in administrative expenses was mainly caused by higher R&D and rental expenses.

### **Finance costs – net**

For the year ended 31 December 2008, our net finance costs were approximately HK\$4.6 million, representing a decrease of approximately HK\$6.1 million, or 57.0%, from HK\$10.7 million for the year ended 31 December 2007. The said decrease was primarily caused by a decrease in finance lease obligations, as well as a decrease in interest rates.

### **Profit before income tax**

As a result of the aforementioned factors, profit before income tax for the year ended 31 December 2008 was approximately HK\$96.9 million, representing a decrease of approximately HK\$0.5 million, or 0.5%, from HK\$97.4 million in the year ended 31 December 2007.

### **Income tax expense**

Income tax expense for the year ended 31 December 2008 was approximately HK\$10.9 million, representing a decrease of approximately HK\$6.9 million, or 38.8%, from approximately HK\$17.8 million in the year ended 31 December 2007. The decrease was mainly due to the PRC enterprise income tax exemption enjoyed by World Fair Heshan in 2008. As a result of this tax exemption, our overall effective tax rate decreased from 18.2% for the year ended 31 December 2007 to 11.2% for the year ended 31 December 2008.

### **Profit for the year**

For the year ended 31 December 2008, our net profit was approximately HK\$86.0 million, representing an increase of approximately HK\$6.4 million, or 8.0%, from approximately HK\$79.6 million in the year ended 31 December 2007.

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## **FINANCIAL INFORMATION**

### **LIQUIDITY AND CAPITAL RESOURCES**

We have historically met our liquidity requirements principally through a combination of cash flow from operations, internal resources and bank borrowings. Our principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures.

#### **Cash flow**

	<b>Year ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	80,373	148,450	26,668
Net cash generated from/(used in) investing activities	31,501	(160,783)	(82,256)
Net cash (used in)/generated from financing activities	(102,250)	24,141	72,578
Net increase in cash and cash equivalents	9,624	11,808	16,990
Cash and cash equivalents at beginning of the year	(8,802)	822	12,630
Cash and cash equivalents at end of the year	822	12,630	29,620

#### **Net cash generated from operating activities**

Net cash generated from operating activities primarily consists of profit before income tax adjusted for finance income/costs, depreciation and amortisation, loss on disposal of property, plant and equipment, gain on disposal of financial assets at fair value through profit or loss and the effect of changes in working capital.

We derive our cash inflow from operating activities principally from the receipt of payments from sales of our products. Our cash outflow from operations mainly includes purchases of raw materials, as well as staff costs.

Net cash generated from operating activities for the year ended 31 December 2007 amounted to approximately HK\$80.4 million, while our profit before income tax for the same period was approximately HK\$97.4 million. The difference of approximately HK\$17.0 million was primarily attributable to the gain on disposal of financial assets of approximately HK\$25.1 million, depreciation of approximately HK\$18.2 million, the increase of trade receivables of approximately HK\$34.2 million and the increase of accruals and other payables of approximately HK\$23.8 million.

Net cash generated from operating activities for the year ended 31 December 2008 amounted to approximately HK\$148.5 million, while our profit before income tax for the same period was approximately HK\$96.9 million. The difference of approximately HK\$51.6 million was primarily attributable to depreciation expense of approximately HK\$19.2 million, a decrease in inventories of approximately HK\$11.5 million, a decrease in trade receivables of approximately HK\$17.3 million, an increase in accruals and other payables of approximately HK\$9.5 million and Hong Kong profits tax paid of approximately HK\$9.9 million.

Net cash generated from operating activities for the year ended 31 December 2009 amounted to approximately HK\$26.7 million, while our profit before income tax for the same period was approximately HK\$163.7 million. The difference of approximately HK\$137.0 million was primarily attributable to an increase in trade and bills payables of approximately HK\$123.7 million, which was partially offset by an increase in inventories of approximately HK\$72.8 million and an increase in trade receivables of approximately HK\$181.4 million during the same period.

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### Net cash generated from/(used in) investing activities

Net cash generated from investing activities for the year ended 31 December 2007 amounted to approximately HK\$31.5 million, which was primarily attributable to the purchase of property, plant and equipment of approximately HK\$26.8 million and an increase in pledged bank deposits of approximately HK\$4.7 million, which was partially offset by a decrease in amounts due from Directors of approximately HK\$22.3 million and the proceeds from disposal of financial assets of HK\$40.0 million.

Net cash used in investing activities for the year ended 31 December 2008 amounted to approximately HK\$160.8 million, which was primarily attributable to the purchase of property, plant and equipment of approximately HK\$77.3 million and an increase in pledged bank deposits of approximately HK\$37.3 million and amounts due from Directors of approximately HK\$46.4 million.

Net cash used in investing activities for the year ended 31 December 2009 amounted to be approximately HK\$82.3 million, which was primarily attributable to an increase in pledged bank deposits of HK\$27.0 million and the purchase of property, plant and equipment of approximately HK\$95.1 million, which was partially offset by a decrease of amounts due from directors of approximately HK\$52.5 million.

### Net cash (used in)/generated from financing activities

Net cash used in financing activities for the year ended 31 December 2007 amounted to approximately HK\$102.3 million, which was primarily due to repayments of bank borrowings of approximately HK\$25.8 million, capital repayment of finance lease obligations of approximately HK\$32.9 million and dividends paid of approximately HK\$51.0 million.

Net cash generated from financing activities for the year ended 31 December 2008 amounted to approximately HK\$24.1 million, which was mainly due to newly raised bank borrowings of approximately HK\$60.4 million and partially offset by capital repayments of bank borrowings of approximately HK\$33.6 million.

Net cash generated from financing activities for the year ended 31 December 2009 amounted to approximately HK\$72.6 million, which was primarily attributable to an increase in bank borrowings of approximately HK\$354.6 million, which was partially offset by the repayments of bank borrowings of HK\$204.8 million.

### MAJOR FINANCIAL RATIOS

	Year ended 31 December		
	2007	2008	2009
Trade receivable turnover (days) <sup>1</sup>	25	27	56
Trade and bills payable turnover (days) <sup>2</sup>	87	77	108
Inventory turnover (days) <sup>3</sup>	30	24	40
Gearing ratio <sup>4</sup>	47%	24%	41%
Current ratio <sup>5</sup>	0.7	0.7	1.0
Return on equity <sup>6</sup>	124%	57%	63%

*Notes:*

- 1 The trade receivable turnover days is calculated based on the average of the beginning and ending balance of trade receivables, net of provision on impairment, for the year divided by revenue during the year and multiplied by the number of days during the year.

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- 2 The trade payable turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year divided by total cost of sales for the year, and multiplied by the number of days during the year.
- 3 Inventory turnover days is calculated based on the average of the beginning and ending balance of inventories for the year divided by cost of sales for the year, and multiplied by the number of days during the year.
- 4 Gearing ratio is calculated by dividing net debt by total capital as at the end of the respective years multiplied by 100%. Net debt is calculated as total borrowings including finance lease obligations less cash and cash equivalents and pledged bank deposits.
- 5 The current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective years.
- 6 Return on equity equals the profit for the year divided by owner’s equity attributable to our Company’s equity holders as at the end of the respective years.

### Trade receivables turnover

Our trade receivables represent receivables for sales of our products to our customers. In general, during the Track Record Period our customers were granted a credit period of 30 to 90 days.

Trade receivables turnover slightly increased from 25 days for the year ended 31 December 2007 to 27 days for the year ended 31 December 2008. Trade receivables turnover increased to 56 days for the year ended 31 December 2009, mainly due to the extension of the credit period granted to Synaptics, our major customer, from 30 days to 60 days.

The following is an ageing analysis of trade receivables at each balance sheet date:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
0 to 30 days	55,924	46,027	147,400
31 to 60 days	1,536	500	73,208
61 to 90 days	6,350	22	6,715
91 to 120 days	52	–	598
Over 120 days	<u>153</u>	<u>153</u>	<u>11</u>
	64,015	46,702	227,932
Less: Provision for impairment of receivables	<u>(153)</u>	<u>(153)</u>	<u>–</u>
<b>Total:</b>	<b><u>63,862</u></b>	<b><u>46,549</u></b>	<b><u>227,932</u></b>

The substantial increase in trade receivables from approximately HK\$46.5 million as at 31 December 2008 to approximately HK\$227.9 million as at 31 December 2009 was mainly attributable to the increase in the revenue of our Group from approximately HK\$119.3 million for the two months ended 31 December 2008 to approximately HK\$258.3 million for the two months ended 31 December 2009, which is mainly attributable to the sales of new products (e.g. fingerprint biometric devices, wireless charging devices and plasma street lamps), and the extension of credit period for Synaptics from 30 days in 2008 to 60 days starting from July 2009 as a result of commercial discussions between Synaptics and our Group. Our Directors believe that it is reasonable and in line with the industry practice for our Group to offer Synaptics a 60 days’ credit period.

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### Trade and bills payables turnover

Our trade and bills payables are derived primarily from payables to our suppliers. The credit periods granted to us by our suppliers is determined on a case-by-case basis. In general, our suppliers during the Track Record Period granted us a credit period of approximately 90 days.

Turnover of trade and bills payables days decreased from 87 days for the year ended 31 December 2007 to 77 days for the year ended 31 December 2008. Such turnover days for both years are in line with the average credit period of 90 days.

Turnover of trade and bills payables days increased from 77 days for the year ended 31 December 2008 to 108 days for the year ended 31 December 2009. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the increase in trade payables turnover was in line with the increasing trend of our trade receivables turnover for the year ended 31 December 2009.

An ageing analysis of our trade and bills payables as at each balance sheet date indicated, is set out as follows.

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	38,569	61,950	105,132
31 to 60 days	41,524	31,279	92,826
61 to 90 days	30,720	26,579	40,436
91 to 120 days	7,034	2,683	9,715
Over 120 days	4,311	2,235	316
	<u>122,158</u>	<u>124,726</u>	<u>248,425</u>

### Inventory turnover

Our inventories mainly comprise raw materials, components and finished goods for temporary storage prior to delivery to customers. Our internal control policy aims to maintain sufficient inventory levels for our production, relying on a just-in-time manner for key components. During the Track Record Period, our inventory turnover remained reasonably short and stable and did not experience material fluctuations. The inventory turnover days decreased from 30 days for the year ended 31 December 2007 to 24 days for the year ended 31 December 2008. During the year ended 31 December 2009, the inventory turnover days increased to 40 days, which was mainly attributable to additional raw materials purchased for production in anticipation of an increase in sales volume.

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The following table sets out a breakdown of inventories for the periods indicated.

	As at 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Raw materials	22,534	17,369	70,469
Work in progress	9,600	7,805	17,504
Finished goods	<u>12,286</u>	<u>7,754</u>	<u>17,718</u>
<b>Total:</b>	<b><u>44,420</u></b>	<b><u>32,928</u></b>	<b><u>105,691</u></b>

### Gearing ratio

Our gearing ratio decreased from 47% as at 31 December 2007 to 24% as at 31 December 2008 because of an increase in total equity as a result of business growth. Our gearing ratio increased from 24% as at 31 December 2008 to 41% as at 31 December 2009, mainly due to an increase in bank borrowings which was in line with the expansion of our business during this period.

### Current ratio

Our current ratio as at 31 December 2007, 2008 and 2009 remained stable at 0.7, 0.7 and 1.0, respectively.

### Return on equity

Return on equity decreased from 124% for the year ended 31 December 2007 to 57% for the year ended 31 December 2008 due to an increase in owner's equity attributable to our Company's equity holders for the year ended 31 December 2008 as a result of an increase in total equity resulting from retained earnings accumulated during this period. The increase in return on equity to 63% for the year ended 31 December 2009 was mainly attributable to the increase in net profit during that period.

### Intangible assets

Our intangible assets mainly consisted of capitalised development costs with regards to fingerprint biometric devices and lighting source products. The development costs as at 31 December 2009, which mainly included employee costs for the R&D team, amounted to approximately HK\$10.1 million together with expenses relating to the application of patents and trademarks which amounted to approximately HK\$1.3 million. Such intangibles assets are amortised over their estimated useful life of five years on a straight-line basis.

## FINANCIAL INFORMATION

### Prepayments, deposits and other receivables

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current</b>			
Prepayments for purchase of inventories	41	218	11,670
Utility and other deposits	1,330	1,217	4,272
Value-added tax recoverable	1,834	3,282	10,870
Others <sup>(Note 1)</sup>	<u>1,277</u>	<u>1,512</u>	<u>5,989</u>
	<u>4,482</u>	<u>6,229</u>	<u>32,801</u>
<b>Non-current</b>			
Prepayment for purchase of machinery	<u>1,887</u>	<u>1,725</u>	<u>3,299</u>

*Note:*

1. Others mainly consists of prepayment for tax consultancy fees, banking advisory service charges and other miscellaneous prepayments and deposits.

Our prepayments for purchase of inventories were approximately HK\$41,000, HK\$0.2 million and HK\$11.7 million as at 31 December 2007, 2008 and 2009, respectively. The significant increase in prepayments for purchase of inventories arose mainly from the increase in sales volume that led to an increase in inventories during the same period. As at the Latest Practicable Date, the total prepayment amount of the Group as at 31 December 2009 has been substantially utilised.

Our utility and other deposits were approximately HK\$1.3 million, HK\$1.2 million and HK\$4.3 million as at 31 December 2007, 2008 and 2009, respectively.

Our value-added tax recoverable was approximately HK\$1.8 million, HK\$3.3 million and HK\$10.9 million as at 31 December 2007, 2008 and 2009, respectively. The increasing trend was primarily due to our purchase of additional raw materials for our expansion in production during the Track Record Period.

### Financial assets at fair value through profit or loss

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity linked structure notes	1,947	1,056	–
Listed shares	–	–	<u>1,403</u>
	<u>1,947</u>	<u>1,056</u>	<u>1,403</u>



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We purchased an equity-linked note convertible into shares of HSBC Holdings Plc (“HSBC”) during the year ended 31 December 2006 with a nominal amount of USD150,000 (equivalent to HK\$1,170,000) and a maturity date of 22 December 2008. The equity-linked note was subsequently redeemed during the year ended 31 December 2007. The relevant gain was recognised and included in the gain on disposal of financial assets at fair value through profit or loss.

We had also purchased and held another two equity-linked notes during the year ended 31 December 2007 with nominal amounts of USD100,000 (equivalent to HK\$780,000) and USD150,000 (equivalent to HK\$1,170,000), respectively, and maturity dates of 9 July 2009 and 10 July 2009, respectively. Our maximum possible losses in relation to such equity-linked notes are their respective nominal amounts.

The aforementioned equity-linked notes have already matured and were both converted into HSBC shares in July 2009. We plan to retain the said HSBC shares for the time being.

In relation to our investment and treasury policies in the future, our Directors confirm that we will take a conservative approach in relation to our investment strategy and will continue to focus on our core business development which includes enhancing our competitive position in the capacitive touch products, fingerprint biometric devices and lighting products markets. Our Directors confirm that we do not expect to engage in further investment in financial products, save for entering into foreign exchange forward contracts for hedging purposes if our Directors deem such arrangements to be necessary and appropriate.

### Balances with related parties

Details of the balances with related parties are as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due from related companies</b>			
IT Growth Holdings Limited	–	6	–
Kick-Start Technology Limited	<u>7</u>	<u>14</u>	<u>–</u>
	<u><u>7</u></u>	<u><u>20</u></u>	<u><u>–</u></u>
<b>Amounts due from/(to) directors</b>			
Mr. Wong Kwok Fong	10,482	56,326	(369)
Ms. Ching Pui Yi	<u>–</u>	<u>518</u>	<u>(245)</u>
	<u><u>10,482</u></u>	<u><u>56,844</u></u>	<u><u>(614)</u></u>
<b>Amount due to a related company</b>			
World Fair Technology Holdings Limited	<u><u>10,434</u></u>	<u><u>10,421</u></u>	<u><u>–</u></u>

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The related companies are companies beneficially owned by our Controlling Shareholders who are also our Directors. The balances with related companies and directors are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these balances approximate their fair values, which represent our Group’s maximum exposure to credit risk at the respective balance sheet date.

### Pledged bank deposits

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Pledged bank deposits	<u>19,088</u>	<u>56,423</u>	<u>83,431</u>

As at 31 December 2007, 2008 and 2009, we had pledged bank deposits of approximately HK\$19.1 million, HK\$56.4 million and HK\$83.4 million, respectively. The significant increase in pledged bank deposits during the Track Record Period was mainly due to the increase in our Group’s banking facilities during the Track Record Period.

### Bank borrowings

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Non-current</b>			
Bank loans	18,860	–	89,003
<b>Current</b>			
Bank loans	–	18,860	111,858
Bank overdrafts	178	–	6,437
Trust receipts loans	<u>2,973</u>	<u>60,385</u>	<u>28,279</u>
Total bank borrowings	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>

Our borrowings at the balance sheet dates were repayable as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	3,151	79,245	146,574
Between one and two years	18,860	–	48,347
Between two and five years	–	–	<u>40,656</u>
	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>

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## FINANCIAL INFORMATION

We had total outstanding bank borrowings of approximately HK\$22.0 million, HK\$79.2 million and HK\$235.6 million as at 31 December 2007, 2008 and 2009, respectively. The increase in total bank borrowings after the relocation of our production facilities in 2007 was in line with our expansion of production.

### Accruals and other payables

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Payable for purchase of property, plant and equipment	6,092	11,005	17,028
Salary and wages payable	5,778	8,173	12,817
Accrued operating expenses	4,190	4,254	7,883
Advance receipts from customers	136	646	306
Provision for value-added tax and other taxes in the PRC	6,515	8,447	6,608
Other accruals and other payables	<u>5,905</u>	<u>5,614</u>	<u>7,569</u>
	<u>28,616</u>	<u>38,139</u>	<u>52,211</u>

Total accruals and other payables as at 31 December 2009 were approximately HK\$52.2 million, representing an increase of HK\$14.1 million, whereas as at 31 December 2008, total accruals and other payables were approximately HK\$38.1 million, representing an increase of approximately HK\$9.5 million from approximately HK\$28.6 million as at 31 December 2007. The increase in total accruals and other payables was mainly attributable to an increase in payables for the purchase of property, plant and equipment, and increased salary and wages payable resulting from the increased headcount as we expanded our production lines.

### Working Capital Positions

We had recorded net current liabilities of approximately HK\$65.5 million and HK\$78.6 million as at 31 December 2007 and 2008 respectively, which was principally attributable to the utilisation of short-term bank borrowings to finance our operational and capital expenditure, as well as unsettled trade and bills payables as at each of the years above. The increase in capital expenditure was primarily attributable to expenditure for property, plant and equipment during the Track Record Period, which increased from HK\$37.9 million for the year ended 31 December 2007 to HK\$133.3 million for the year ended 31 December 2009, in order to support the business growth of our Group. The considerable amount of unsettled trade and bills payables during the Track Record Period, which are included in current liabilities, was mainly attributable to a credit period of approximately 90 days granted to us by our suppliers and the relative trade and bills payables turnover days, which ranged from 77 days to 108 days, during the same period. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the significant balance of trade and bills payables was in line with the trend of our trade receivables.

As at 31 December 2009, our working capital position improved and resulted in a net current assets position which was mainly due to increased profit recorded during the Track Record Period and the replacement of various short-term bank borrowings with long-term borrowings by our Group. Going forward, our Directors expect to continue utilising banking facilities to support part of our operational and capital expenditure where necessary.

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## FINANCIAL INFORMATION

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We had net current liabilities of approximately HK\$4.6 million as at 30 April 2010, being the indebtedness date, which was principally attributable to our Company’s declaration of dividends in the amount of approximately HK\$15.4 million in March 2010.

### NET CURRENT LIABILITIES AS OF 30 APRIL 2010

As at 30 April 2010, being the latest practicable date for the purpose of this working capital statement, we had net current liabilities of approximately HK\$4.6 million, comprising current assets of approximately HK\$572.9 million and current liabilities of approximately HK\$577.5 million.

The following table sets out the composition of our unaudited current assets and liabilities as at 30 April 2010:

	<i>HK\$’000</i>
<b>Current assets</b>	
Inventories	194,533
Trade receivables	210,373
Prepayments, deposits and other receivables	38,372
Financial assets at fair value through profit or loss	1,403
Pledged bank deposits	89,425
Cash and cash equivalents	<u>38,822</u>
	572,928
<b>Current liabilities</b>	
Trade and bills payables	287,626
Accruals and other payables	58,166
Bank borrowings	182,675
Finance lease obligations	21,052
Current income tax liabilities	8,778
Amounts due to directors	<u>19,251</u>
	577,548
<b>Net current liabilities</b> <sup>Note</sup>	<b><u>(4,620)</u></b>

Note: The net current liabilities position as at 30 April 2010 is mainly attributable to our Company’s declaration of dividends in the amount of approximately HK\$15.4 million in March 2010. At the Latest Practicable Date, our Group has obtained HK\$47 million of long-term loans. Following completion of [●], our intention is to continue to replace our short-term borrowings with long-term borrowings. Our Group is not expected to have a net current liabilities position.

We strive to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations, we also seek bank borrowings to fund our working capital requirements. We have maintained long-term relationships with various commercial banks in Hong Kong and China and we believe that our existing short-term bank loans will be accepted for renewal

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## **FINANCIAL INFORMATION**

upon their maturity, if necessary. Since the beginning of the global financial recession, we have neither encountered major difficulties in securing and/or renewing bank borrowings, nor have we been charged an exceptionally high interest rate on our bank borrowings. In addition, the credit facilities currently available to us cannot, based on the terms and conditions of the relevant bank loan agreements, be tightened or cancelled due to unfavourable financial results of our Group.

### **INDEBTEDNESS**

#### **Borrowings**

As at 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement, we have bank borrowings and finance lease obligations as follows:

	<i>HK\$'000</i>
<b>Non-current liabilities</b>	
Bank borrowings – bank loans	82,777
Finance lease obligations	<u>25,441</u>
	108,218
<b>Current liabilities</b>	
Bank borrowings	
– Bank loans	120,690
– Bank overdrafts	4,431
– Trust receipt loans	57,554
Finance lease obligations	<u>21,052</u>
	<u><u>203,727</u></u>
<b>Total borrowings</b>	<u><u>311,945</u></u>

Bank borrowings are secured by the Group’s buildings and land use rights, pledged deposits and personal guarantees provided by our directors, Mr. Wong and Ms. Ching. Our Directors confirm that the above personal guarantees will be replaced by corporate guarantee [●].

Finance lease obligations are secured by machinery with carrying amounts of approximately HK\$73.3 million as at 30 April 2010.

#### **Contingent liabilities**

In April 2010, World Fair Hong Kong, one of our subsidiaries incorporated in Hong Kong, received a notice of additional assessment dated 30 March 2010 from the Hong Kong Inland Revenue Department (the **IRD**) demanding additional profits tax in the amount of HK\$1.75 million for the

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## **FINANCIAL INFORMATION**

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2003/04 tax year. World Fair Hong Kong also received a notice from the IRD of even date requesting an interview in relation to its tax affairs for the tax years from 2003/04 to 2008/09.

The additional tax of HK\$1.75 million was not accrued for but treated as a contingent liability in our consolidated financial information for the year ended 31 December 2009 (see Note 38 to the Accountant’s Report set out in Appendix I in this document) as we are of the view that given that there is insufficient information available to determine the ultimate outcome of the IRD’s review at this stage, there is no reliable basis for estimating and making provisions for such potential liability. We believe it is possible that the additional assessment was made of a protective nature from the IRD’s perspective to keep the 2003/04 tax year technically open as claims in relation to the 2003/04 tax year would otherwise be statutorily time-barred after 31 March 2010. Furthermore, the basis of the additional assessment adopted by the IRD is currently unclear to us. As such, the actual amounts of additional assessment for which we may be liable, if any, could be higher or lower than the amount indicated in the assessment notice. World Fair Hong Kong has filed an objection with the IRD against the additional assessment and the IRD has agreed to an unconditional holdover of the assessment amount for the period during which the objection is under consideration, which may or may not be ruled in favour of our Group.

Furthermore, before the IRD completes its review process and any additional tax liabilities be settled, the IRD may issue additional assessments for the 2004/2005 tax year and/or any subsequent tax year(s) before claims relating to the relevant assessment year become statutorily time-barred. As a result, our Group may be subject to additional tax liabilities. Please refer to the section headed “Risk Factors – Risks Relating to our Group – Our Hong Kong subsidiary may be subject to additional tax liabilities” in this document.

Our Controlling Shareholders have agreed to indemnify our Group in respect of any costs or liabilities arising out of additional assessments for the tax years from 2003/04 to 2008/09 for which our Group may be liable. For details in relation to the indemnity, please refer to the section headed “Statutory and General Information – Other Information – Estate Duty and Tax Indemnity” in Appendix VI of this document.

Save as aforesaid and apart from intra-group liabilities and accounts payable in the ordinary course of business, we did not have any outstanding debt securities or loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities outstanding as at 30 April 2010.

## **CASH FLOWS**

We have financed our operations and growth mainly through a combination of cash from operations and external borrowings. We have used our cash mainly to finance our operations and capital expenditures and to repay our borrowings. Our Directors are of the view that as at the Latest Practicable Date, the recent global economic downturn had no material adverse effect on our liquidity position.

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## FINANCIAL INFORMATION

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We funded our operations principally with revenue generated from our product sales and through bank borrowings. Our principal liquidity and capital requirements were mainly related to the following:

- payment of dividends to our Shareholders;
- costs and expenses related to the operation of our business and procurement of materials and raw materials; and
- capital expenditures for the purchase of equipment.

### CAPITAL EXPENDITURES

Our capital expenditure requirements primarily relate to the purchase of plant and equipment. We have funded our historical capital expenditures through cash from our operations, bank borrowings and finance lease obligations. The following table sets out our capital expenditures during the Track Record Period.

	Year ended 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total capital expenditures</b>	<b><u>37,888</u></b>	<b><u>93,871</u></b>	<b><u>133,295</u></b>

During the Track Record Period, we incurred capital expenditures mainly as a result of our purchase of property, plant and equipment.

We anticipate that the funds needed to finance our capital expenditures will be financed by cash generated from our operations, bank borrowings, finance lease obligations. If necessary, we may raise additional funds on terms that are acceptable to us.

Our current plans with respect to future capital expenditures may be subject to change based on the implementation of our business plan, including potential acquisitions, market conditions and our outlook on future business conditions. As we continue to expand, we may incur additional capital expenditures.

Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, as well as economic, political and other conditions in the PRC, Hong Kong and other jurisdiction(s) in which we operate.

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## FINANCIAL INFORMATION

### CAPITAL COMMITMENTS

We had the following future aggregate capital commitments for property, plant and equipment as at the dates presented in the table below:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	<u>10,726</u>	<u>1,105</u>	<u>4,466</u>

### OPERATING LEASE COMMITMENTS

We lease various offices and warehouses under non- cancellable operating lease agreements.

As at the dates presented, the future aggregate minimum lease payments of our Group under non-cancellable operating leases were as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	3,164	4,299	5,287
Later than one year and not later than five years	–	6,727	7,970
Later than five years	<u>–</u>	<u>2,229</u>	<u>1,126</u>
	<u>3,164</u>	<u>13,255</u>	<u>14,383</u>

### DIVIDEND AND DIVIDEND POLICY

Our Company may distribute dividends by way of cash or by other means that we consider appropriate. A decision to distribute any dividends would require the approval of our Board and will be at its discretion. In addition, any distribution of final dividend for a financial year will be subject to Shareholders’ approval. Our Board will review our Company’s dividend policy from time to time taking into account the following factors in determining whether dividends are to be declared and paid:

- financial results of our Company;
- shareholders’ interests;
- general business conditions and strategies;
- our Company’s capital requirements;
- the payment by our subsidiaries of cash dividends to our Company;



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## **FINANCIAL INFORMATION**

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- possible effects on liquidity and financial position of our Company; and
- other factors our Board may deem relevant.

During the Track Record Period, subsidiaries of our Company had declared dividends to their then equity holders of HK\$51.0 million, nil and HK\$51.0 million, respectively. In March 2010, we declared an interim dividend in respect of the year ended 31 December 2009 of approximately HK\$15.4 million.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and factors described above, we currently expect to distribute as dividends not more than 30% of our net profit after tax.

## **RECENT DEVELOPMENTS**

The pressure in global capital and credit markets began in the second half of 2007 continued and substantially increased during the second half of 2008. Concerns over the availability and cost of credit, the U.S. mortgage market, energy costs, inflation, and a declining U.S. real estate market have contributed to increased volatility and diminished expectations for the global economy and the financial markets going forward. These factors, combined with declining business and increased unemployment in the United States and Europe, have precipitated a worldwide recession. The PRC and international equity markets have also been experiencing heightened volatility. These events and the continuing upheavals have resulted in an economic slowdown, which has in turn affected corporate spending priorities.

We believe that we managed to continue maintaining profitability despite the economic downturn primarily as a result of our experienced management team, proven track record in providing timely and quality products to our customers in addition to certain cost-saving measures.

## **PROPERTY INTERESTS**

As at 31 March 2010, our properties held under property and equipment were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV in this document. The net revaluation surplus, representing the excess of market value of the properties over their carrying values, has not been included in our consolidated financial information as at 31 December 2009 as our Group’s property interests are stated at cost less accumulated depreciation and accumulated impairment losses.

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## FINANCIAL INFORMATION

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The table below set for the reconciliation of aggregate amounts of property interests from our consolidated financial information as of 31 December 2009 and 31 March 2010 to the valuation amount of our Company’s property interests as of 31 March 2010:

	<i>HK\$’000</i>
Net book value of our property interests as of 31 December 2009	72,194
Movements for the three months ended 31 March 2010	
– Additions	423
– Depreciation	<u>(488)</u>
Net book value of our property interests as of 31 March 2010	72,129
Valuation surplus as of 31 March 2010	<u>3,438</u>
Valuation as of 31 March 2010 per Appendix IV in this document <sup>(Note)</sup>	<u><u>75,567</u></u>

Note: The amount has been translated from RMB into HK dollars at a rate of RMB0.8771 to HK\$1.00.

### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in our consolidated financial statements included in the Accountant’s Report set out in Appendix I in this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or such terms no less favourable to us than terms available to Independent Third Parties and which were fair and reasonable and in the interest of our Shareholders as a whole.

For details of related party transactions, please refer to Note 37 to the Accountant’s Report in Appendix I in this document.

### DISTRIBUTABLE RESERVES

As at 31 December 2009, our Company had a share premium of HK\$34,750,000, which is available for distribution to our shareholders. Our Group’s retained earnings as at 31 December 2009 amounted to HK\$234,942,000.

### WORKING CAPITAL

Taking into account the financial resources available to us, including internally generated funds, available banking facilities and [●], our Directors are of the opinion that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

### OFF BALANCE SHEET TRANSACTIONS

Except for the commitments and contingent liabilities set forth above, we have not entered into any material off-balance sheet transactions or arrangements as at 31 December 2009.

[●]

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## **FINANCIAL INFORMATION**

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### **NO MATERIAL ADVERSE CHANGE**

The Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 December 2009 (being the date of our latest audited consolidated financial results as set out in Appendix I in this document).

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## **FINANCIAL INFORMATION**

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### **PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010**

Forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 <sup>(1) &amp; (2)</sup>	Not less than HK\$103.3 million
Unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010	Not less than HK\$

*Notes:*

- (1) The bases and assumptions on which the above consolidated profit forecast for the six months ending 30 June 2010 has been prepared are summarised in Appendix III in this document.
- (2) The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on unaudited management accounts of our Group for the four months ended 30 April 2010 and a forecast of the consolidated results of our Group for the remaining two months ending 30 June 2010. The forecast has been prepared based on the accounting policies consistent in all material respects with those presently adopted by our Group as set out in Note 4 of Section I of the Accountant’s Report, the text of which is set out in Appendix I in this document.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to various types of financial risks, namely, market risks (including foreign exchange risk and interest rate risk), credit risks and liquidity risks, in the normal course of business. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. Risk management is carried out by our senior management according to policies approved by the Board.

Our senior management regularly manages our financial risks. We closely monitor our risk exposure to changes in foreign currency exchange rates and may consider entering into foreign forward exchange contracts from time to time so as to better manage our foreign exchange exposure, where necessary.

## **FINANCIAL INFORMATION**

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### **Market risks**

#### *Foreign exchange risk*

We operate principally in Hong Kong and in the PRC. We are exposed to foreign exchange risk primarily with respect to Hong Kong dollar and RMB denominated transactions. Foreign exchange risk arises where future commercial transactions and recognised assets and liabilities are denominated in currency that is not our functional currency. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2007, 2008 and 2009, our borrowings were denominated in Hong Kong dollar, US dollar and RMB. Since the Hong Kong dollar is pegged to the US dollar, we believe that the exposure of transactions denominated in Hong Kong dollars which are entered into by us to be insignificant.

As at 31 December 2007, 2008 and 2009, if RMB had strengthened/weakened by 5% against the US dollar with all other variables held constant, our post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been higher/lower by HK\$236,000, HK\$218,000 and HK\$1,452,000, respectively, mainly as a result of foreign exchange gains/losses on revaluation of RMB denominated receivables and payables.

Our Group manages our exposure to foreign currency transactions by monitoring the level of foreign currency receipts and payments. We ensure that our net exposure to foreign exchange risk is kept at an acceptable level from time to time. We also regularly review our portfolio of suppliers and the currencies in which the transactions are denominated so as to minimise our exposure to foreign exchange risk.

#### *Interest rate risk*

Except for cash held at banks and pledged bank deposits, we have no significant interest bearing assets. Our income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2007, 2008 and 2009, if interest rates on cash held at banks and pledged bank deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK\$158,000, HK\$487,000 and HK\$908,000 respectively higher/lower, mainly as a result of higher/lower interest income on pledged bank deposits.

Our interest rate risk arises from bank borrowings which are interest bearing at floating rates and are repayable based on the bank repayment schedule. Borrowings issued at floating rates expose us to cash flow interest-rate risk. Borrowings issued at fixed rates expose us to fair value interest-rate risk.

As at 31 December 2007, 2008 and 2009, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK\$630,000, HK\$976,000 and HK\$2,426,000 higher/lower, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

We are not exposed to any fair value interest-rate risk as we do not hold any fixed rates borrowings as at 31 December 2007, 2008 and 2009.

## **FINANCIAL INFORMATION**

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### **Credit risks**

Credit risk mainly arises from trade and other receivables, financial assets at fair value through profit or loss, amounts due from related parties, pledged bank deposits and cash and cash equivalents.

As at 31 December 2007, 2008 and 2009, trade receivables from Synaptics accounted for approximately 82%, 99% and 54% of our trade receivables, respectively. We have policies in place to ensure that sales of products are made to customers with an appropriate credit history. We normally conduct credit checks on new customers and may require them, and other customers with credit histories that we are not satisfied with, or to provide us with a letter of credit when placing orders. In order to minimise our credit risk, our management has implemented internal control procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Based on our historical experience in the collection of trade and other receivables and amounts due from related parties, our Directors and the management are of the opinion that adequate provisions have been made for uncollectible receivables.

Our financial assets, which we carry at fair value, are placed with a financial institution which is independently rated with a high credit rating. Our Directors do not expect any losses from non-performance by this financial institution as it has no history of default.

Our cash and cash equivalents and pledged bank deposits are deposited in over ten financial institutions, which management believes are reputable and without significant credit risk.

### **Liquidity risks**

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and an ability to settle our payables as they fall due. Due to the dynamic nature of our underlying businesses, our senior management aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of our liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flow. We aim to maintain flexibility in funding while minimising our overall costs by keeping a mix of committed and uncommitted credit lines available.

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## APPENDIX I

## ACCOUNTANT’S REPORT

*The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F Prince's Building  
Central, Hong Kong

June 2010

The Directors  
World Wide Touch Technology (Holdings) Limited

[●]

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of World Wide Touch Technology (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) set out in Sections I to II below, for inclusion in this document of the Company in connection with [●]. The Financial Information comprises the consolidated balance sheets as at 31 December 2007, 2008 and 2009, the balance sheet of the Company as at 31 December 2009, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2007, 2008 and 2009 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in the Cayman Islands on 17 July 2009 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 2 of Section I headed “Group reorganisation” below, which was completed on 27 November 2009, the Company became the holding company of the subsidiaries comprising the Group (the “Reorganisation”).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 2 of Section I below. All of these companies are private companies.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the Reorganisation. The details of the statutory auditors of the subsidiaries comprising the Group are set out in Note 2 of Section I below.

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## **APPENDIX I**

## **ACCOUNTANT’S REPORT**

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For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods (the “Underlying Financial Statements”), in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). We have audited the Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

### **Directors’ responsibility**

The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Reporting accountant’s responsibility**

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements for the Relevant Periods used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline [●] issued by the HKICPA.

### **Opinion**

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Company as at 31 December 2009 and of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and of the Group’s results and cash flows for the Relevant Periods.



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**APPENDIX I**

**ACCOUNTANT’S REPORT**

**I FINANCIAL INFORMATION OF THE GROUP**

The following is the financial information of the Group as at 31 December 2007, 2008 and 2009 and for each of the years ended 31 December 2007, 2008 and 2009, and the financial information of the Company as at 31 December 2009:

**(a) CONSOLIDATED BALANCE SHEETS**

	Section I Note	As at 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	8	165,563	240,186	340,526
Land use right	9	5,467	5,385	5,270
Intangible assets	10	–	–	11,383
Deferred income tax assets	22	–	709	278
Prepayments	14	1,887	1,725	3,299
		<u>172,917</u>	<u>248,005</u>	<u>360,756</u>
<b>Current assets</b>				
Inventories	11	44,420	32,928	105,691
Trade receivables	13	63,862	46,549	227,932
Prepayments, deposits and other receivables	14	4,482	6,229	32,801
Financial assets at fair value through profit or loss	15	1,947	1,056	1,403
Amounts due from related companies	16	7	20	–
Amounts due from directors	16	10,482	56,844	–
Pledged bank deposits	17(a)	19,088	56,423	83,431
Cash and cash equivalents	17(b)	1,000	12,630	36,057
		<u>145,288</u>	<u>212,679</u>	<u>487,315</u>
<b>Total assets</b>		<u><b>318,205</b></u>	<u><b>460,684</b></u>	<u><b>848,071</b></u>

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	Section I Note	As at 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
<b>EQUITY</b>				
<b>Owner’s equity attributable to the Company’s equity holders</b>				
Share capital	18	215,250	215,250	215,250
Reserves	19	(151,230)	(63,048)	26,857
		<u>64,020</u>	<u>152,202</u>	<u>242,107</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Bank borrowings	20	18,860	–	89,003
Finance lease obligations	21	24,573	14,580	31,471
Deferred tax liabilities	22	–	2,590	–
		<u>43,433</u>	<u>17,170</u>	<u>120,474</u>
<b>Current liabilities</b>				
Trade and bills payables	23	122,158	124,726	248,425
Accruals and other payables	24	28,616	38,139	52,211
Bank borrowings	20	3,151	79,245	146,574
Finance lease obligations	21	29,851	23,144	23,505
Current income tax liabilities		16,542	15,637	14,161
Amount due to a related company	16	10,434	10,421	–
Amounts due to directors	16	–	–	614
		<u>210,752</u>	<u>291,312</u>	<u>485,490</u>
<b>Total liabilities</b>		<u>254,185</u>	<u>308,482</u>	<u>605,964</u>
<b>Total equity and liabilities</b>		<u>318,205</u>	<u>460,684</u>	<u>848,071</u>
<b>Net current (liabilities)/assets</b>		<u>(65,464)</u>	<u>(78,633)</u>	<u>1,825</u>
<b>Total assets less current liabilities</b>		<u>107,453</u>	<u>169,372</u>	<u>362,581</u>

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**(b) BALANCE SHEET**

	<b>Section I Note</b>	<b>As at 31 December 2009 HK\$'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	12	<u>250,000</u>
<b>Total assets</b>		<u><u>250,000</u></u>
<b>EQUITY</b>		
<b>Owner's equity attributable to the Company's equity holders</b>		
Share capital	18	215,250
Share premium	19	34,750
Accumulated losses	19	<u>(50)</u>
		<u><u>249,950</u></u>
<b>LIABILITY</b>		
<b>Current liabilities</b>		
Amount due to a subsidiary		<u>50</u>
<b>Total equity and liabilities</b>		<u><u>250,000</u></u>
<b>Net current liabilities</b>		<u><u>(50)</u></u>
<b>Total assets less current liabilities</b>		<u><u>249,950</u></u>

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**(c) CONSOLIDATED INCOME STATEMENTS**

	Section I Note	Years ended 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Revenue	25	674,293	749,788	888,348
Cost of sales	27	<u>(521,845)</u>	<u>(585,701)</u>	<u>(629,802)</u>
Gross profit		152,448	164,087	258,546
Other income/(losses) – net	26	19,045	(443)	1,198
Distribution costs	27	<u>(6,262)</u>	<u>(4,242)</u>	<u>(6,135)</u>
Administrative expenses	27	<u>(57,116)</u>	<u>(57,926)</u>	<u>(81,727)</u>
Operating profit		108,115	101,476	171,882
Finance income	30	539	227	265
Finance costs	30	<u>(11,253)</u>	<u>(4,780)</u>	<u>(8,454)</u>
Finance costs – net	30	<u>(10,714)</u>	<u>(4,553)</u>	<u>(8,189)</u>
Profit before income tax		97,401	96,923	163,693
Income tax expense	31	<u>(17,775)</u>	<u>(10,878)</u>	<u>(10,563)</u>
Profit for the year	32	<u><u>79,626</u></u>	<u><u>86,045</u></u>	<u><u>153,130</u></u>
Attributable to:				
Equity holders of the Company		79,626	86,045	151,655
Minority interests		<u>–</u>	<u>–</u>	<u>1,475</u>
		<u><u>79,626</u></u>	<u><u>86,045</u></u>	<u><u>153,130</u></u>
Earnings per share for profit attributable to equity holders of the Company				
– basic (expressed in HK cents per share)	32	<u><u>3.70</u></u>	<u><u>4.00</u></u>	<u><u>7.05</u></u>
– diluted (expressed in HK cents per share)	32	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>
Dividends	33	<u><u>51,000</u></u>	<u><u>–</u></u>	<u><u>51,000</u></u>

No statement of comprehensive income is presented as there is no other comprehensive income during the Relevant Periods.

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(d) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company								
	Share capital (Note 18) HK\$'000	Merger reserve (Note 19) HK\$'000	Capital reserve (Note 19) HK\$'000	Share issuance costs HK\$'000	Share-based compensation reserve (Note 28) HK\$'000	Statutory reserve (Note 19) HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	Total HK\$'000
For the year ended									
31 December 2007									
At 1 January 2007	215,250	(215,150)	-	-	-	-	35,294	-	35,394
Profit for the year	-	-	-	-	-	-	79,626	-	79,626
Dividends	-	-	-	-	-	-	(51,000)	-	(51,000)
At 31 December 2007	<u>215,250</u>	<u>(215,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,920</u>	<u>-</u>	<u>64,020</u>
For the year ended									
31 December 2008									
At 1 January 2008	215,250	(215,150)	-	-	-	-	63,920	-	64,020
Profit for the year	-	-	-	-	-	-	86,045	-	86,045
Share-based compensation	-	-	-	-	2,137	-	-	-	2,137
Transfer to statutory reserve	-	-	-	-	-	5,756	(5,756)	-	-
At 31 December 2008	<u>215,250</u>	<u>(215,150)</u>	<u>-</u>	<u>-</u>	<u>2,137</u>	<u>5,756</u>	<u>144,209</u>	<u>-</u>	<u>152,202</u>
For the year ended									
31 December 2009									
At 1 January 2009	215,250	(215,150)	-	-	2,137	5,756	144,209	-	152,202
Profit for the year	-	-	-	-	-	-	151,655	1,475	153,130
Share of net asset value by minority shareholders	-	-	-	-	-	-	(3,100)	3,100	-
Professional fees [●]	-	-	-	(17,924)	-	-	-	-	(17,924)
Share-based compensation	-	-	-	-	5,699	-	-	-	5,699
Release of share-based compensation reserve to capital reserve	-	-	7,836	-	(7,836)	-	-	-	-
Deemed contribution from equity holders upon Reorganisation	-	-	4,575	-	-	-	-	(4,575)	-
Transfer to statutory reserve	-	-	-	-	-	6,822	(6,822)	-	-
Dividends	-	-	-	-	-	-	(51,000)	-	(51,000)
At 31 December 2009	<u>215,250</u>	<u>(215,150)</u>	<u>12,411</u>	<u>(17,924)</u>	<u>-</u>	<u>12,578</u>	<u>234,942</u>	<u>-</u>	<u>242,107</u>

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(e) CONSOLIDATED CASH FLOW STATEMENTS

	Note	Years ended 31 December		
		2007	2008	2009
		HK\$'000	HK\$'000	HK\$'000
<b>Cash flow from operating activities</b>				
Cash generated from operations	34	91,626	163,132	49,320
Interest paid		(11,253)	(4,780)	(8,454)
Hong Kong profits tax paid		–	(9,902)	(14,198)
Net cash generated from operating activities		<u>80,373</u>	<u>148,450</u>	<u>26,668</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(26,758)	(77,313)	(95,147)
Additions of intangible assets		–	–	(12,824)
Interest received		539	227	265
Proceeds from disposal of property, plant and equipment		126	–	–
Proceeds from disposal of financial assets at fair value through profit or loss		40,023	–	–
Increase in pledged bank deposits		(4,715)	(37,335)	(27,008)
Decrease/(increase) in amounts due from directors		22,286	(46,362)	52,458
Net cash generated from/(used in) investing activities		<u>31,501</u>	<u>(160,783)</u>	<u>(82,256)</u>
<b>Cash flows from financing activities</b>				
New bank borrowings		2,973	60,385	354,646
Repayments of bank borrowings		(25,754)	(2,973)	(204,751)
Increase in finance lease obligations		4,400	327	2,250
Capital repayment of finance lease obligations		(32,863)	(33,585)	(23,146)
Repayment of amount due to a related company		(6)	(13)	(10,421)
Dividends paid		(51,000)	–	(46,000)
Net cash (used in)/generated from financing activities		<u>(102,250)</u>	<u>24,141</u>	<u>72,578</u>
Net increase in cash and cash equivalents		9,624	11,808	16,990
Cash and cash equivalents at beginning of the year		<u>(8,802)</u>	<u>822</u>	<u>12,630</u>
Cash and cash equivalents at end of the year	17	<u>822</u>	<u>12,630</u>	<u>29,620</u>
<b>Analysis of the balance of cash and cash equivalents</b>				
Cash at banks and on hand		1,000	12,630	36,057
Bank overdrafts		(178)	–	(6,437)
		<u>822</u>	<u>12,630</u>	<u>29,620</u>

**NOTES TO THE FINANCIAL INFORMATION**

**1 General information**

World Wide Touch Technology (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 17 July 2009 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the “Group”) are principally engaged in the trading and manufacturing of electronic products.

The Financial Information is presented in thousands of units of Hong Kong dollars, unless otherwise stated.

**2 Group reorganisation**

Prior to the completion of the reorganisation as described below (the “Reorganisation”), the business of the Group was carried out by World Fair International Limited (“World Fair Hong Kong”) and its subsidiaries. Before the completion of the Reorganisation, World Fair Hong Kong was a company incorporated in Hong Kong which was beneficially wholly owned by Mr. Wong Kwok Fong (“Mr. Wong”) and Ms. Ching Pui Yi (“Ms. Ching”) (together, the “Controlling Shareholders”).

The following changes in group structure took place during the Relevant Periods:

- (a) On 30 September 2008, the Group adopted a Share Incentive Scheme (Note 28) pursuant to which a 2.83% equity interest in World Fair Hong Kong was agreed to be granted to certain key management personnel (the “Minority Shareholders”) upon fulfillment of certain vesting conditions.
- (b) In May 2009, Success Charm Holdings Limited (“Success Charm”) was incorporated in the British Virgin Islands and was wholly owned by the Controlling Shareholders. In May 2009, Charming Lion Limited (“Charming Lion”), Cherry Light Limited (“Cherry Light”), Ever Firm Limited (“Ever Firm”), Silkray Limited (“Silkray”) were also incorporated in the British Virgin Islands and were wholly owned by Success Charm.
- (c) In July 2009, Shining Union Limited (“Shining Union”) and Up Castle Limited (“Up Castle”) were incorporated in Hong Kong and were wholly owned by Cherry Light and Silkray, respectively.
- (d) On 4 November 2009, World Design Technology Limited (“World Design”) was incorporated in the British Virgin Islands and was wholly owned by Success Charm.
- (e) On 9 November 2009, World Fair Hong Kong entered into an agreement with the Controlling Shareholders to acquire a 0.01% equity interest in Cybertouch-Tech Company Limited (“Cybertouch”).

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- (f) On 13 November 2009, Ever Firm entered into an agreement with World Fair Hong Kong to acquire the entire equity interest in Cybertouch.
  
- (g) On 27 November 2009, Charming Lion entered into an agreement with the Minority Shareholders and World Fair Technology Holdings Limited, a company incorporated in Hong Kong which is beneficially wholly owned by the Controlling Shareholders, to acquire the entire equity interest in World Fair Hong Kong.
  
- (h) On 27 November 2009, the Company acquired the entire equity interest in Success Charm from the Controlling Shareholders by issuing 2,152,490,000 shares at HK\$0.1 each to the Controlling Shareholders and the Minority Shareholders. Upon completion of the Reorganisation on 27 November 2009, the Company became the holding company of the subsidiaries now comprising the Group.

On 18 December 2009, Cyber Energy Limited (“Cyber Energy”) was incorporated in Hong Kong and was wholly owned by World Design.

The directors regard Swan Hills Holdings Limited, a company incorporated in Commonwealth of The Bahamas on 6 May 2009, as being the ultimate holding company.



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As at the date of the Financial Information, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Date of incorporation/ establishment	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective interest held by the Group	Principal activities	Name of statutory auditors		
						2007 (Note)	2008 (Note)	2009 (Note)
<i>Directly held:</i>								
Success Charm	11 May 2009	British Virgin Islands	27,774,264 shares of US\$1 each	100%	Investment holding	N/A	N/A	N/A
<i>Indirectly held:</i>								
Charming Lion	6 May 2009	British Virgin Islands	2 shares of US\$1 each	100%	Investment holding	N/A	N/A	N/A
Cherry Light	11 May 2009	British Virgin Islands	1 share of US\$1 each	100%	Investment holding	N/A	N/A	N/A
Cybertouch	13 October 2000	Hong Kong	10,000 shares of HK\$1 each	99.99%	Inactive	(a)	(a)	(a)
Cyber Energy	18 December 2009	Hong Kong	1 share of HK\$1 each	100%	Inactive	N/A	N/A	N/A
Ever Firm	6 May 2009	British Virgin Islands	1 share of US\$1 each	100%	Investment holding	N/A	N/A	N/A
Shining Union	9 July 2009	Hong Kong	1 share of HK\$1 each	100%	Investment holding and management and holding of patents, trademarks and designs	N/A	N/A	N/A
Silkray	11 May 2009	British Virgin Islands	1 share of US\$1 each	100%	Investment holding	N/A	N/A	N/A
Up Castle	9 July 2009	Hong Kong	1 share of HK\$1 each	100%	Investment holding and research and development	N/A	N/A	N/A
World Design	4 November 2009	British Virgin Islands	1 share of US\$1 each	100%	Investment holding	N/A	N/A	N/A
He Shan World Fair Electronics Technology Ltd.	18 November 2004	The PRC	US\$57,250,000	100%	Manufacturing of printed circuit board touch pad	(c)	(c)	(c)
World Fair Hong Kong	27 December 1996	Hong Kong	100,000 shares of HK\$1 each	100%	Trading of electronic products	(b)	(a)	(a)

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*Notes:*

- (a) PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.
- (b) The financial year end date of World Fair Hong Kong has been changed from 30 June to 31 December with effect from 1 July 2007. The statutory financial statements of World Fair Hong Kong for the year ended 30 June 2007 and the period ended 31 December 2007 were audited by Bright Brilliance CPA Limited.
- (c) Heshan Haitian Joint Accounting Firm (鶴山市海天合伙會計師事務所), Certified Public Accountants, the PRC.
- (N/A) No audited financial statements have been issued as these companies are newly established/incorporated and are not yet subject to statutory audit requirement, or there is no statutory audit requirement in the place of incorporation/establishment of these companies.

### **3 Basis of presentation**

The Reorganisation has been accounted for as a reorganisation of business under common control using the principle of merger accounting as presented in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combination” issued by the HKICPA. Accordingly the Financial Information presents the consolidated results, cashflow and financial position of the Group as if the group structure upon completion of the Reorganisation had been in existence throughout the Relevant Periods or since the respective dates of incorporation or establishment of the companies comprising the Group, whichever is earlier.

### **4 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **4.1 Basis of preparation**

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 6.

As at the date of this report, the following standards, amendments and interpretations to existing standards have been published by the HKICPA but are not yet effective for the accounting period ended 31 December 2009 and have not been early adopted by the Group.

- HKAS 24 (Revised), “Related party disclosures” (effective for annual period beginning on or after 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - the name of the government and the nature of their relationship;
  - the nature and amount of any individually-significant transactions; and
  - the extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. This amendment is not expected to have significant impact to the Group.

- HKAS 32 (Amendment), “Classification of rights issue” (effective for annual period beginning on or after 1 January 2010). Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Entities will no longer classify rights issues, for which the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer’s equity will continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss. This amendment is not relevant to the Group.
- HKAS 39 (Amendment) “Financial Instruments: Recognition and measurement” – “Eligible hedged items” (effective for annual period beginning on or after 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations. This amendment is not relevant to the Group.
- HKFRS 1 (Amendment), “First time adoption of HKFRS” and HKAS 27 “Consolidated and separate financial statements” (effective for annual period beginning on or after 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements.
- HKFRS 2 (Amendment), “Group cash-settled share-based payment transaction” (effective for annual period beginning on or after 1 January 2010). In addition to incorporating HK(IFRIC) – Int 8, “Scope of HKFRS 2”, and HK(IFRIC) – Int 11, “HKFRS 2 – Group and treasury share transactions”, the amendments expand on the guidance in HK(IFRIC) – Int 11 to address the accounting in the separate financial statements of a subsidiary when

its suppliers/employees will receive cash payments from the parent that are linked to the price of the equity instruments of an entity in the Group. The parent, and not the entity, has the obligation to deliver cash. The amendments state that the entity shall account for the transaction with its suppliers/employees as equity-settled, and recognise a corresponding increase in equity as a contribution from its parent. The subsidiary shall remeasure the cost of the transaction subsequently for any changes resulting from non-market vesting conditions not being met in accordance with paragraphs 19 – 21. This differs from the measurement of the transaction as cash-settled in the consolidated financial statements of the Group. HKFRS 2 (Amendment) is not relevant to the Group’s operations because none of the Group’s companies have such cash-settled share-based payment transaction. The Group will apply this amendment prospectively from 1 January 2010.

- HKFRS 3 (Revised), “Business combinations” (effective for annual period beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- HK(IFRIC) – Int 14 (Amendment), “Prepayments of a minimum funding requirement” (effective for annual period beginning on or after 1 July 2010). Some entities that are subject to a minimum funding requirement have elected to prepay their pension contributions. The prepaid contributions are recovered through lower minimum funding requirements in future years. The previous version of HK(IFRIC) – Int 14 did not permit the recognition of an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was an unintended consequence of the interpretation, which has been amended to require that an asset is recognised in these circumstances. This amendment is not relevant to the Group.
- HK(IFRIC) – Int 17 – “Distributions of non-cash assets to owners” (effective for annual period beginning on or after 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:
  - a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
  - the dividend payable shall be measured at the fair value of the assets to be distributed.
  - the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.

HK(IFRIC) – Int 17 is not relevant to the Group’s operations because none of the Group’s companies have distributed non-cash assets to owners.

- HK(IFRIC) – Int 18, “Transfers of assets from customers” (effective for annual period beginning on or after 1 July 2009). It clarifies that an asset received from a customer should be recognised initially at fair value, and the related income should be recognised immediately or if there is a future service obligation, over the relevant service period. This Interpretation also applies to cash received from a customer for the acquisition or construction of an asset. HK(IFRIC) – Int 18 is not relevant to the Group’s operations because none of the Group’s companies have received any assets nor cash from customers.
- HK(IFRIC) – Int 19, “Extinguishing financial liabilities with equity instruments” (effective for annual period beginning on or after 1 July 2010). The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a “debt for equity swap”). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes. This interpretation applies to all debtors that enter into debt for equity swap transactions in full or partial settlement of a financial liability. This interpretation is not relevant to the Group.
- HKFRS 9, “Financial Instruments” (effective for annual period beginning on or after 1 January 2013). Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only ‘basic loan features’). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group will apply this new standard prospectively from 1 January 2013.

In May 2009, the HKICPA published certain other improvements to the HKFRS which will be effective for periods beginning on or after 1 January 2010. These improvements have not been early adopted by the Group. Amendments have been made to the following standards according to the improvements:

- |                                  |  |
|----------------------------------|--|
| ● HKAS 1 (Amendment)             | Presentation of financial statements   |
| ● HKAS 7 (Amendment)             | Cash flow statements   |
| ● HKAS 17 (Amendment)            | Leases   |
| ● HKAS 18 (Amendment)            | Revenue  |
| ● HKAS 36 (Amendment)            | Impairment of assets   |
| ● HKAS 38 (Amendment)            | Intangible assets  |
| ● HKAS 39 (Amendment)            | Financial instruments: Recognition and measurement   |
| ● HKFRS 2 (Amendment)            | Scope of HKFRS 2 and revised HKFRS 3   |
| ● HKFRS 5 (Amendment)            | Disclosures of non-current assets (or disposal groups) classified as held for sales or discontinued operations |
| ● HKFRS 8 (Amendment)            | Disclosure of information about segment assets   |
| ● HK(IFRIC) – Int 16 (Amendment) | Hedges of a net investment in a foreign operation  |

The improvements to HKFRSs above do not have material impact on the Group’s results of operations and financial position.

The Group is currently assessing the impact of the adoption of the other new standards, amendments to standards and interpretations above that are applicable to the Group in future periods.

## **4.2 Consolidation**

The Financial Information includes the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting right. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group except for the Reorganisation which was accounted for under merger accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **4.3 Transaction with minority interests**

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is equity. Gains or losses on disposals to minority interests are also recorded in equity.

#### **4.4 Segment reporting**

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

#### **4.5 Foreign currency translation**

##### ***(a) Functional and presentation currency***

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is United States (“US”) dollar. The Financial Information is presented in Hong Kong dollar.

##### ***(b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

##### ***(c) Group companies***

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders’ equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### **4.6 Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	2.5%
– Leasehold improvements, furniture and fixtures and office equipment	10 to 50%
– Machinery	10%
– Computer equipment	20 to 50%
– Motor vehicles	10 to 25%

Construction-in-progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intend to hold for the use of the Group. They are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the amounts are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 4.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

#### **4.7 Land use right**

The up-front prepayments made for land use right are accounted for as operating leases. They are expensed in the consolidated income statement on a straight-line basis over the periods of lease, or when there is impairment, the impairment is expensed in the consolidated income statement.



#### **4.8 Intangible assets**

##### **(a) Trademarks and patents**

Separately acquired trademarks and patents are shown at historical cost. Trademarks and patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and patents over their estimated useful lives.

##### **(b) Research and developments costs**

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are recognised as part of the product include the product development employee costs. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Product development costs recognised as assets are amortised over their estimated useful lives of five years.

#### **4.9 Impairment of investments in subsidiaries and non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **4.10 Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

##### **(a) *Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### **(b) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group’s loans and receivables comprise trade and other receivables and receivables due from related parties.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the consolidated income statement within – ‘other income – net’, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

#### **4.11 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### **4.12 Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off in the consolidated income statement within “administrative expenses”. Subsequent recoveries of amounts previously written off are credited against “administrative expenses” in the consolidated income statement.

#### **4.13 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

#### **4.14 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **4.15 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **4.16 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset. Other borrowing costs are charged to the consolidated income statement in the period in which they are incurred.

#### **4.17 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent it relates to items recognised in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### **4.18 Employee benefits**

##### ***(a) Pension obligations***

The Group maintains defined contribution plans in both Hong Kong and the PRC. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Under the Group’s defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### ***(b) Bonus plan***

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a legal or construction obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

***(c) Share-based compensation expenses***

Pursuant to an equity-settled share incentive scheme (details of which are set out in Note 28 (iii) to the Financial Information), under which the Group receives services from employees as consideration for equity instruments of a subsidiary of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market performance and service vesting conditions. Non-market performance and service vesting conditions are included in the assumptions of the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to vest based on the non-market performance and service vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

**4.19 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**4.20 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group’s activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

***(a) Sales of goods***

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

**(b) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**(c) Sundry income**

Sundry income is recognised when the right to receive payment is established.

**4.21 Leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use right, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**4.22 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks on behalf of subsidiaries to secure banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company’s liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

#### **4.23 Dividend distribution**

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s Financial Information in the period in which the dividends are approved by the Company’s shareholders or directors where appropriate.

### **5 Financial risk management**

#### **5.1 Financial risk factors**

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. Risk management is carried out by the senior management of the Group under policies approved by the directors of the Company or directors of the companies comprising the Group where appropriate.

Management regularly manages the financial risks of the Group. The management closely monitors the risk exposures on changes in foreign currency exchange rates and may consider entering into foreign forward exchange contracts from time to time so as to better manage these foreign exchange exposures, where necessary.

##### **(a) Market risk**

###### *Foreign exchange risk*

The Group operates principally in Hong Kong and in the PRC. It is exposed to foreign exchange risk primarily with respect to Hong Kong dollar and Chinese Renminbi (“RMB”) denominated transactions. Foreign exchange risk arises where future commercial transactions, recognised assets and liabilities are denominated in currency that is not the Company’s functional currency. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2007, 2008 and 2009, the Group’s borrowings are denominated in Hong Kong dollar, US dollar or RMB. Since Hong Kong dollar is pegged to US dollar, the Group believes the exposure of transactions denominated in Hong Kong dollar which are entered by the Group to be insignificant.

As at 31 December 2007, 2008 and 2009, if RMB had strengthened/weakened by 5% with all other variables held constant, the post tax profit for the years ended 31 December 2007, 2008 and 2009 would have been HK\$236,000, HK\$218,000 and HK\$1,452,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on revaluation of RMB denominated receivables and payables.

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group also regularly reviews the portfolio of suppliers and the currencies in which the transactions are denominated so as to minimise the Group’s exposure to foreign exchange risk.

*Price risk*

The Group is exposed to equity price change arising from its financial assets at fair value through profit or loss. The Group’s financial instruments are equity securities and equity linked structure notes which are subject to change in market prices of the securities or the underlying listed securities. The Group is not exposed to significant equity price risk as the amounts of financial assets at fair value through profit or loss as at 31 December 2007, 2008 and 2009 are not significant.

The Group does not expose to significant commodity price risk.

*Interest rate risk*

Except for the cash held at bank and pledged bank deposits, the Group has no significant interest bearing assets. The Group’s income and operating cash flows are substantially independent of changes in market interest rates.

At 31 December 2007, 2008 and 2009, if interest rates on cash held at bank and pledged bank deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK\$158,000, HK\$487,000 and HK\$908,000 respectively higher/lower, mainly as a result of higher/lower interest income on pledged bank deposits.

The Group’s interest rate risk arises from bank borrowings which are interest bearing at floating rates and are repayable based on the bank repayment schedule. Borrowings issued at floating rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

At 31 December 2007, 2008 and 2009, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK\$630,000, HK\$976,000 and HK\$2,426,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Group does not expose to any fair value interest-rate risk as the Group does not hold any fixed rates borrowings as at 31 December 2007, 2008 and 2009.

**(b) Credit risk**

Credit risk mainly arises from trade and other receivables, financial assets at fair value through profit or loss, amounts due from related parties, pledged bank deposits and cash and cash equivalents.

As at 31 December 2007, 2008 and 2009, trade receivables from one customer accounted for approximately 82%, 99% and 54% of the Group’s trade receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group normally conducts credit checks on new customers and require them, and other customers with credit histories that the management are not satisfied with, to pay a deposit of on average, 30% of the sales amount, or to provide the Group with a letter of credit when placing orders. In order to minimise the



credit risk of the Group, the management has implemented internal control procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Based on the Group’s historical experience in collection of trade and other receivables and amounts due from related parties the directors and the management are of opinion that adequate provision has been made for uncollectible receivables.

The financial assets at fair value through profit or loss of the Group are placed in a financial institution which is independently rated with a high credit rating. Management does not expect any losses from non-performance by this financial institution as it has no default history in the past.

Cash and cash equivalents and pledged bank deposits were deposited in over ten financial institutions, which management believes are reputable and without significant credit risk.

**(c) *Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group. Due to the dynamic nature of the underlying businesses, senior management of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group’s liquidity reserve which comprise undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

**THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained herein is incomplete and subject to change and that it must be read in conjunction with the section headed “Warning” on the cover of this Web Proof Information Pack.**

## APPENDIX I

## ACCOUNTANT’S REPORT

The table below analyses the Group’s and the Company’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group:

	<b>Within One year HK\$’000</b>	<b>Between one and two years HK\$’000</b>	<b>Between two and five years HK\$’000</b>	<b>Total HK\$’000</b>
<i>At 31 December 2007</i>				
Trade and bills payables	122,158	–	–	122,158
Accruals and other payables	28,616	–	–	28,616
Bank borrowings	4,568	20,064	–	24,632
Finance lease obligations	32,353	18,966	6,770	58,089
Amount due to a related company	10,434	–	–	10,434
	<u>198,129</u>	<u>39,030</u>	<u>6,770</u>	<u>243,929</u>
<i>At 31 December 2008</i>				
Trade and bills payables	124,726	–	–	124,726
Accruals and other payables	38,139	–	–	38,139
Bank borrowings	82,454	–	–	82,454
Finance lease obligations	24,320	11,648	3,373	39,341
Amount due to a related company	10,421	–	–	10,421
	<u>280,060</u>	<u>11,648</u>	<u>3,373</u>	<u>295,081</u>
<i>At 31 December 2009</i>				
Trade and bills payables	248,425	–	–	248,425
Accruals and other payables	52,211	–	–	52,211
Bank borrowings	150,414	49,207	41,380	241,001
Finance lease obligations	25,784	17,533	15,805	59,122
Amounts due to directors	614	–	–	614
	<u>477,448</u>	<u>66,740</u>	<u>57,185</u>	<u>601,373</u>
Company:				
<i>At 31 December 2009</i>				
Financial guarantee contract to a subsidiary	<u>9,842</u>	<u>4,685</u>	<u>1,119</u>	<u>15,646</u>

### 5.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as going concern in order to provide returns for shareholders and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or dispose of assets to reduce debt.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits.

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The Group’s strategy was to maintain a solid capital base to support the operations and development of its business in the long term. Management considers a gearing ratio of not more than 50% would be appropriate. The table below analyses the Group’s capital structure at 31 December 2007, 2008 and 2009 as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Total bank borrowings	22,011	79,245	235,577
Total finance lease obligations	54,424	37,724	54,976
Less: Cash and cash equivalents and pledged bank deposits	<u>(20,088)</u>	<u>(69,053)</u>	<u>(119,488)</u>
Net debt	56,347	47,916	171,065
Total equity	<u>64,020</u>	<u>152,202</u>	<u>242,107</u>
Total capital	<u>120,367</u>	<u>200,118</u>	<u>413,172</u>
Gearing ratio	<u>47%</u>	<u>24%</u>	<u>41%</u>

### **5.3 Fair value estimation**

#### **(a) Financial assets and liabilities**

The carrying amounts of the Group’s financial assets, (including trade receivables, other receivables, amounts due from related parties pledged bank deposits and cash and cash equivalents), and the Group’s financial liabilities, (including trade and bills payables, other payables, short-term bank borrowings, finance lease obligations and amount due to a related company) approximate their fair values due to their short maturities. The face value less estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

#### **(b) Financial instruments**

The fair value measurements of financial instruments of the Group that are measured at fair value in the consolidated balance sheet are disclosed by level of the following fair value measurement hierarchy:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise listed shares classified as financial assets at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 comprise equity linked structure notes classified as financial assets at fair value through profit or loss.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. None of financial instruments of the Group is included in level 3.

## **6 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### ***(a) Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each balance sheet date.

### ***(b) Impairment of property, plant and equipment, land use right and intangible assets***

Property, plant and equipment, land use right and intangible assets are reviewed for impairment whenever events or change in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs to sell calculations. The calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount,

being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group’s financial position and results of operations.

***(c) Useful lives of property, plant and equipment and intangible assets***

The Group’s management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or writedown technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore affect the depreciation and amortisation charges in future periods.

***(d) Estimated recoverability of trade and other receivables***

The Group’s management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

***(e) Income taxes***

The Group is subject to income taxes in jurisdictions in Hong Kong and the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates are changed.

***(f) Share-based compensation expenses***

The fair value of the equity instruments granted under the Group’s share incentive scheme, details of which are set out in Note 28 (iii), is measured on the grant date based on the discounted cash flows method under the income approach using a five-year cash flows projections of the Group and the related estimated terminal value. There are a number of assumptions and estimates involved in the preparation of cash flows projections including the revenue growth rates, the gross profit

margin rates and the discount rates. Management prepares the cash flows projections by reference to the Group’s historical financial performance and expectations in respect to market developments. Judgement is required to determine key assumptions adopted regarding the cash flows projections, and changes of these assumptions could affect the projected cash flows and therefore the value of the equity instruments granted through the incentive scheme.

The Group is also required to estimate the probability of occurrence of non-market performance conditions and the expected percentage of grantees that will be entitled to the equity instruments (i.e. service conditions) at the end of the vesting period. The Group recognises an expense over the vesting period for those equity instruments expected to vest. Changes in these estimates could have a material effect on the amount of such awards expected to vest, which may in turn significantly impact the share-based compensation expense.

**(g) *Research and development costs***

Critical judgment by the Group’s management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at each balance sheet date. In addition, all internal activities related to the research and development of new products is continuously monitored by the Group’s management.

**7 Segment information**

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (the “CEO”) that are used to make strategic decisions.

The CEO considers the business from a product perspective.

The reportable operating segments derive their revenue primarily from the manufacturing and sale of capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices.

Although the fingerprint biometric devices and lighting source segment do not meet the quantitative thresholds required by HKFRS 8, management has concluded that these segments should be reported, as they are closely monitored by the directors as a potential growth business and are expected to materially contribute to the Group’s revenue in the future.

Other products include plastic products, medical light-emitting diode products and mining machine system products. These are not qualified as reportable segment as these segments do not meet the quantitative threshold required by HKFRS 8 and accordingly, the segment information of these operations are included in “other segments”.

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Reportable segment information are reconciled to profit before income tax as follows:

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue from external customers</b>			
Capacitive touch products	614,727	722,158	689,364
Fingerprint biometric devices	–	69	42,281
Lighting source	40,962	4,849	17,775
Wireless charging devices	–	–	102,431
Other segments	<u>18,604</u>	<u>22,712</u>	<u>36,497</u>
Segment revenue for reportable and other segments	<u>674,293</u>	<u>749,788</u>	<u>888,348</u>
<b>Segment gross profit</b>			
Capacitive touch products	127,800	152,592	190,593
Fingerprint biometric devices	–	23	17,820
Lighting source	14,342	1,738	6,744
Wireless charging devices	–	–	30,525
Other segments	<u>10,306</u>	<u>9,734</u>	<u>12,864</u>
Segment gross profit for reportable and other segments	<u>152,448</u>	<u>164,087</u>	<u>258,546</u>
<b>Other segment item – amortisation of intangible assets</b>			
Fingerprint biometric devices	–	–	(1,167)
Lighting source	–	–	(274)
	<u>–</u>	<u>–</u>	<u>(1,441)</u>
<b>Unallocated:</b>			
Depreciation shared by various reportable segments	(4,187)	(4,848)	(6,240)
Amortisation of land use right	(150)	(82)	(115)
Share-based compensation expenses	–	(2,137)	(5,699)
Other income/(losses) – net	19,045	(443)	1,198
Other distribution costs and administrative expenses	(59,041)	(55,101)	(74,367)
Finance costs – net	<u>(10,714)</u>	<u>(4,553)</u>	<u>(8,189)</u>
	<u>(55,047)</u>	<u>(67,164)</u>	<u>(93,412)</u>
Profit before income tax	<u>97,401</u>	<u>96,923</u>	<u>163,693</u>

The revenue from external parties reported to the CEO is measured in a manner consistent with that in the Financial Information.

The CEO assesses the performance of the operating segments based on a measure of gross profit margin, which are in a manner consistent with that of the Financial Information.

Other income, distribution and administrative expenses are not allocated to segments, as they are inseparable for each product and not attributable to particular reportable segments.

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Interest income and expenses are not allocated to segments, as this type of activities are managed by the central finance and accounting function, which manages the working capital of the Group.

Reportable segments’ assets are reconciled to total assets as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Segment assets</b>			
Capacitive touch products	154,589	198,684	295,690
Fingerprint biometric devices	–	69	48,684
Lighting source	13,351	810	21,973
Wireless charging devices	–	–	74,508
Other segments	<u>7,584</u>	<u>9,232</u>	<u>18,787</u>
Segment assets for reportable and other segments	<u>175,524</u>	<u>208,795</u>	<u>459,642</u>
<b>Other segment item – intangible assets</b>			
Fingerprint biometric devices	–	–	8,914
Lighting source	–	–	2,469
	<u>–</u>	<u>–</u>	<u>11,383</u>
<b>Unallocated</b>			
Property, plant and equipment shared by various reportable segments	75,787	93,499	144,038
Land use right	5,467	5,385	5,270
Deferred income tax assets	–	709	278
Inventories shared by various reportable segments	22,534	17,369	70,469
Prepayments, deposits and other receivables	6,369	7,954	36,100
Financial assets at fair value through profit or loss	1,947	1,056	1,403
Amounts due from related companies	7	20	–
Amounts due from directors	10,482	56,844	–
Pledged bank deposits	19,088	56,423	83,431
Cash and cash equivalents	<u>1,000</u>	<u>12,630</u>	<u>36,057</u>
	<u>142,681</u>	<u>251,889</u>	<u>377,046</u>
Total assets	<u><u>318,205</u></u>	<u><u>460,684</u></u>	<u><u>848,071</u></u>

The amounts provided to the CEO with respect to total assets are measured in a manner consistent with that of the Financial Information. Segment assets represented property, plant and equipment attributable to various reportable segments, trade receivables and inventories attributable to various reportable segments.

Unallocated segment assets comprise property, plant and equipment and inventories shared by various reportable segments, land use right, deferred income tax assets, prepayments, deposits and other receivables financial assets at fair value through profit or loss, amounts due from related companies and directors, pledged bank deposits and cash and cash equivalents which are inseparable for each product and are not attributable to particular reportable segments.



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Reportable segments liabilities are reconciled to total liabilities as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Segment liabilities</b>			
Capacitive touch products	115,389	118,794	192,779
Fingerprint biometric devices	–	3	11,824
Lighting source	628	206	4,971
Wireless charging devices	–	–	28,645
Other segments	<u>6,141</u>	<u>5,723</u>	<u>10,206</u>
Segment liabilities for reportable and other segments	122,158	124,726	248,425
<b>Unallocated:</b>			
Accruals and other payables	28,616	38,139	52,211
Bank borrowings	22,011	79,245	235,577
Finance leases obligations	54,424	37,724	54,976
Current income tax liabilities	16,542	15,637	14,161
Deferred income tax liabilities	–	2,590	–
Amount due to a related company	10,434	10,421	–
Amounts due to directors	<u>–</u>	<u>–</u>	<u>614</u>
Total liabilities	<u>254,185</u>	<u>308,482</u>	<u>605,964</u>

The amounts provided to the CEO with respect to total liabilities are measured in a manner consistent with that of the Financial Information. Segment liabilities represented trade payables which are allocated based on the operations of the segment.

Unallocated segment liabilities comprise, accruals and other payables, interest bearing liabilities, current income tax liabilities, deferred income tax liabilities, amount due to a related company and amounts due to directors which are inseparable for each product and not attributable to particular reportable segments.

Revenues from external customers are derived from the sales of goods net of returns and rebates.

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Analysis of revenue</b>			
Sales of goods	<u>674,293</u>	<u>749,788</u>	<u>888,348</u>

The Group’s entities are mainly domiciled in Hong Kong and the PRC while its major customers are mainly located in the United States of America.

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The result of its revenue from external customers located in the United States of America is HK\$671,807,000, HK\$747,141,000 and HK\$704,670,000 for the years ended 31 December 2007, 2008 and 2009 respectively, while the remaining revenue are derived from customers located in other countries.

The total of non-current assets other than deferred income tax assets located in the PRC is HK\$171,302,000, HK\$245,566,000 and HK\$351,571,000 as at 31 December 2007, 2008 and 2009, and the total of these non-current assets located in other countries is HK\$1,615,000, HK\$1,730,000 and HK\$8,907,000 as at 31 December 2007, 2008 and 2009 respectively.

Revenues of approximately HK\$614,727,000, HK\$722,157,000, and HK\$705,230,000 for the years ended 31 December 2007, 2008 and 2009, respectively, are derived from a single customer. These revenues are mainly attributable to the capacitive touch products segment.

**8 Property, plant and equipment**

	<b>Buildings</b>	<b>Leasehold improvements, furniture and fixtures and office equipment</b>	<b>Machinery</b>	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Construction-in-progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January 2007</b>							
Cost	34,859	20,043	140,847	5,777	5,504	15,270	222,300
Accumulated depreciation	(950)	(17,118)	(45,682)	(3,883)	(1,933)	–	(69,566)
Net book amount	<u>33,909</u>	<u>2,925</u>	<u>95,165</u>	<u>1,894</u>	<u>3,571</u>	<u>15,270</u>	<u>152,734</u>
<b>For the year ended 31 December 2007</b>							
Opening net book amount	33,909	2,925	95,165	1,894	3,571	15,270	152,734
Reclassification	1,047	(1,047)	–	–	–	–	–
Additions	–	2,225	15,442	1,863	2,093	16,265	37,888
Transfers	12,555	–	–	–	–	(12,555)	–
Disposals and write offs	–	–	(6,789)	–	(40)	–	(6,829)
Depreciation	(1,267)	(850)	(14,042)	(1,078)	(993)	–	(18,230)
Closing net book amount	<u>46,244</u>	<u>3,253</u>	<u>89,776</u>	<u>2,679</u>	<u>4,631</u>	<u>18,980</u>	<u>165,563</u>
<b>At 31 December 2007</b>							
Cost	48,656	15,567	142,757	7,640	7,136	18,980	240,736
Accumulated depreciation	(2,412)	(12,314)	(52,981)	(4,961)	(2,505)	–	(75,173)
Net book amount	<u>46,244</u>	<u>3,253</u>	<u>89,776</u>	<u>2,679</u>	<u>4,631</u>	<u>18,980</u>	<u>165,563</u>

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	<b>Buildings</b> <i>HK\$'000</i>	<b>Leasehold improvements, furniture and fixtures and office equipment</b> <i>HK\$'000</i>	<b>Machinery</b> <i>HK\$'000</i>	<b>Computer equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Construction- in-progress</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>For the year ended</b>							
<b>31 December 2008</b>							
Opening net book amount	46,244	3,253	89,776	2,679	4,631	18,980	165,563
Additions	12,108	6,077	71,311	1,791	440	2,144	93,871
Transfers	6,035	–	–	–	–	(6,035)	–
Depreciation	<u>(1,644)</u>	<u>(1,555)</u>	<u>(14,400)</u>	<u>(1,015)</u>	<u>(634)</u>	<u>–</u>	<u>(19,248)</u>
Closing net book amount	<u>62,743</u>	<u>7,775</u>	<u>146,687</u>	<u>3,455</u>	<u>4,437</u>	<u>15,089</u>	<u>240,186</u>
<b>At 31 December 2008</b>							
Cost	66,800	21,644	214,068	9,431	7,576	15,089	334,608
Accumulated depreciation	<u>(4,057)</u>	<u>(13,869)</u>	<u>(67,381)</u>	<u>(5,976)</u>	<u>(3,139)</u>	<u>–</u>	<u>(94,422)</u>
Net book amount	<u>62,743</u>	<u>7,775</u>	<u>146,687</u>	<u>3,455</u>	<u>4,437</u>	<u>15,089</u>	<u>240,186</u>
<b>For the year ended</b>							
<b>31 December 2009</b>							
Opening net book amount	62,743	7,775	146,687	3,455	4,437	15,089	240,186
Additions	3,667	11,737	76,516	3,962	1,039	36,374	133,295
Transfers	7,451	–	–	–	–	(7,451)	–
Depreciation	<u>(1,667)</u>	<u>(2,752)</u>	<u>(26,715)</u>	<u>(1,233)</u>	<u>(588)</u>	<u>–</u>	<u>(32,955)</u>
Closing net book amount	<u>72,194</u>	<u>16,760</u>	<u>196,488</u>	<u>6,184</u>	<u>4,888</u>	<u>44,012</u>	<u>340,526</u>
<b>At 31 December 2009</b>							
Cost	77,918	26,974	290,584	13,393	8,615	44,012	461,496
Accumulated depreciation	<u>(5,724)</u>	<u>(10,214)</u>	<u>(94,096)</u>	<u>(7,209)</u>	<u>(3,727)</u>	<u>–</u>	<u>(120,970)</u>
Net book amount	<u>72,194</u>	<u>16,760</u>	<u>196,488</u>	<u>6,184</u>	<u>4,888</u>	<u>44,012</u>	<u>340,526</u>

Depreciation expense of HK\$14,043,000, HK\$14,400,000, and HK\$26,715,000 has been charged to cost of sales, and HK\$4,187,000, HK\$4,848,000 and HK\$6,240,000 has been charged to administrative expenses for the years ended 31 December 2007, 2008 and 2009, respectively.

The Group's buildings are situated outside Hong Kong under medium term lease, and are pledged as collateral for the Group's banking facilities.

Machinery with carrying amounts of HK\$58,567,000, HK\$50,422,000 and HK\$84,773,000 as at 31 December 2007, 2008 and 2009, respectively, are held under finance leases.

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The Group is in the process of applying certain licenses and permits of construction-in-progress. As at 31 December 2009, the carrying amounts of such construction-in-progress amounted to HK\$34,502,000.

### **9 Land use right**

The Group’s interest in land use right represent prepaid operating lease payments and its net book amount is analysed as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
In the PRC held on:			
Lease between 10 and 50 years	<u>5,467</u>	<u>5,385</u>	<u>5,270</u>

Movements during the years ended 31 December 2007, 2008 and 2009 are as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At beginning of year	5,617	5,467	5,385
Amortisation	<u>(150)</u>	<u>(82)</u>	<u>(115)</u>
At end of year	<u>5,467</u>	<u>5,385</u>	<u>5,270</u>

The Group’s land use right is pledged as a collateral for the Group’s banking facilities.

Amortisation expense has been charged to administrative expenses.

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**10 Intangible assets**

	<b>Trademarks and patents</b>	<b>Development costs</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January 2007, 31 December 2007 and 2008</b>			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net book amount	<u>–</u>	<u>–</u>	<u>–</u>
<b>For the year ended 31 December 2009</b>			
Opening net book amount	–	–	–
Additions	1,591	11,233	12,824
Amortisation	<u>(318)</u>	<u>(1,123)</u>	<u>(1,441)</u>
Closing net book amount	<u>1,273</u>	<u>10,110</u>	<u>11,383</u>
<b>At 31 December 2009</b>			
Cost	1,591	11,233	12,824
Accumulated amortisation	<u>(318)</u>	<u>(1,123)</u>	<u>(1,441)</u>
Net book amount	<u>1,273</u>	<u>10,110</u>	<u>11,383</u>

For the year ended 31 December 2009, development costs were recognised as intangibles assets and are amortised over five years on a straight-line basis. Amortisation expense of HK\$1,441,000 has been charged in administrative expense for the year ended 31 December 2009.

**11 Inventories**

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	22,534	17,369	70,469
Work in progress	9,600	7,805	17,504
Finished goods	<u>12,286</u>	<u>7,754</u>	<u>17,718</u>
	<u>44,420</u>	<u>32,928</u>	<u>105,691</u>

Cost of inventories of HK\$431,850,000, HK\$465,494,000, and HK\$486,387,000 has been included in cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively.

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**12 Investments in subsidiaries**

	<b>As at 31 December 2009</b>
The Company	<i>HK\$'000</i>
Investment in unlisted subsidiaries, at cost	<u>250,000</u>

Details of the subsidiaries of the Company at the date of this report are set out in Note 2.

**13 Trade receivables**

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	64,015	46,702	227,932
Less: Provision for impairment of receivables	<u>(153)</u>	<u>(153)</u>	<u>–</u>
Trade receivables – net	<u>63,862</u>	<u>46,549</u>	<u>227,932</u>

The carrying amounts of trade receivables approximate their fair values.

The Group generally grants a credit period of 30 to 90 days to its customers. The ageing analysis of trade receivables is as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	55,924	46,027	147,400
31 to 60 days	1,536	500	73,208
61 to 90 days	6,350	22	6,715
91 to 120 days	52	–	598
Over 120 days	<u>153</u>	<u>153</u>	<u>11</u>
	<u>64,015</u>	<u>46,702</u>	<u>227,932</u>

As at 31 December 2007, 2008 and 2009, trade receivables of HK\$55,929,000, HK\$45,937,000 and HK\$218,181,000 are neither past due nor impaired. These relate to customers for whom there is no recent history of default.

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As at 31 December 2007, 2008 and 2009, trade receivables of HK\$7,933,000, HK\$612,000 and HK\$9,751,000 were past due but not impaired. No provision has been made against these balances as the directors consider the amounts being recoverable and there is no recent history of default. The ageing analysis of these debtors is as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
0 to 30 days	114	90	63
31 to 60 days	1,417	500	3,619
61 to 90 days	6,350	22	5,460
91 to 120 days	52	–	598
Over 120 days	<u>–</u>	<u>–</u>	<u>11</u>
	<u><b>7,933</b></u>	<u><b>612</b></u>	<u><b>9,751</b></u>

As at 31 December 2007, 2008 and 2009, trade receivables of HK\$153,000, HK\$153,000 and nil were considered to be impaired and have been fully provided for. These trade receivables were aged over 120 days.

Movements on the provision for impairment of trade receivables are as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At beginning of year	–	153	153
Provision for impairment of trade receivables	153	–	–
Trade receivables written off as uncollectible	<u>–</u>	<u>–</u>	<u>(153)</u>
At end of year	<u><b>153</b></u>	<u><b>153</b></u>	<u><b>–</b></u>

The provision for impairment of trade receivables have been charged to administrative expenses.

Trade receivables are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
US dollar	63,862	46,541	222,499
Hong Kong dollar	–	8	29
RMB	<u>–</u>	<u>–</u>	<u>5,404</u>
	<u><b>63,862</b></u>	<u><b>46,549</b></u>	<u><b>227,932</b></u>

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The maximum exposure to credit risk at the reporting date is the fair value of trade receivables. The Group does not hold any collateral in respect of these balances.

**14 Prepayments, deposits and other receivables**

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current</b>			
Prepayments for purchase of inventories	41	218	11,670
Utility and other deposits	1,330	1,217	4,272
Value-added tax recoverable	1,834	3,282	10,870
Others	<u>1,277</u>	<u>1,512</u>	<u>5,989</u>
	<u>4,482</u>	<u>6,229</u>	<u>32,801</u>
<b>Non-current</b>			
Prepayments for purchase of machinery	<u>1,887</u>	<u>1,725</u>	<u>3,299</u>

The directors consider the balances of prepayments, deposits and other receivables are recoverable by reference to the nature of these balances and credit history of counterparties where applicable.

The carrying amounts of prepayments, deposits and other receivables approximate their fair values.

**15 Financial assets at fair value through profit or loss**

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity linked structure notes	1,947	1,056	–
Listed shares	<u>–</u>	<u>–</u>	<u>1,403</u>
	<u>1,947</u>	<u>1,056</u>	<u>1,403</u>

The Group’s financial assets at fair value through profit or loss are denominated in the following currencies:

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
US dollar	1,947	1,056	–
Hong Kong dollar	<u>–</u>	<u>–</u>	<u>1,403</u>
	<u>1,947</u>	<u>1,056</u>	<u>1,403</u>



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The fair values of equity linked structure notes and listed shares are determined by using valuation techniques and current bid prices in an active market respectively. Changes in fair values of financial assets at fair value through profit or loss are recorded in other income/(losses)-net in the consolidated income statement. Financial assets at fair value through profit or loss are presented within ‘investing activities’ in the consolidated cash flow statement.

As at 31 December 2007 and 2008, the Group’s equity linked structure notes are pledged as a collateral for the Group’s banking facilities.

**16 Balances with related parties**

Details of the balances with related parties are as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>The Group:</b>			
Amounts due from related companies			
IT Growth Holdings Limited	–	6	–
Kick-Start Technology Limited	<u>7</u>	<u>14</u>	<u>–</u>
	<u><u>7</u></u>	<u><u>20</u></u>	<u><u>–</u></u>
Amounts due from/(to) directors			
Mr. Wong Kwok Fong	10,482	56,326	(369)
Ms. Ching Pui Yi	<u>–</u>	<u>518</u>	<u>(245)</u>
	<u><u>10,482</u></u>	<u><u>56,844</u></u>	<u><u>(614)</u></u>
Amount due to a related company			
World Fair Technology Holdings Limited	<u>10,434</u>	<u>10,421</u>	<u>–</u>
<b>The Company:</b>			
Amount due to a subsidiary			
World Fair International Limited	<u>–</u>	<u>–</u>	<u>50</u>

*Notes:*

- (i) The above balances are denominated in Hong Kong dollar, except for an amount due from certain directors totalling HK\$10,399,000, HK\$9,317,000 and nil as at 31 December 2007, 2008 and 2009 respectively, which are denominated in RMB.
- (ii) The related companies are companies beneficially owned by the Controlling Shareholders who are also directors of the Company. The balances with related companies and directors are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these balances approximate their fair values, which represent the Group’s maximum exposure to credit risk at the respective balance sheet date. The management consider the balances are recoverable based on credit history of counterparties where applicable.

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(iii) Maximum outstanding balances due from related companies and directors disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	<b>Years ended at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Amounts due from related companies			
IT Growth Holdings Limited	–	6	6
Kick-Start Technology Limited	<u>7</u>	<u>14</u>	<u>14</u>
Amounts due from directors			
Mr. Wong Kwok Fong	10,482	83,107	56,326
Ms. Ching Pui Yi	<u>–</u>	<u>518</u>	<u>518</u>

**17 Cash and bank balances**

**(a) Pledged bank deposits**

All pledged bank deposits were pledged for the Group’s banking facilities. The weighted average interest rate on pledged bank deposits was 2.28%, 1.52%, and 0.06% per annum for the years ended 31 December 2007, 2008 and 2009 respectively.

Pledged bank deposits were denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
US dollar	4,257	41,406	42,609
Hong Kong dollar	<u>14,831</u>	<u>15,017</u>	<u>40,822</u>
	<u>19,088</u>	<u>56,423</u>	<u>83,431</u>

**(b) Cash and cash equivalents**

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Cash in hand	76	124	251
Cash at banks	<u>924</u>	<u>12,506</u>	<u>35,806</u>
	<u>1,000</u>	<u>12,630</u>	<u>36,057</u>

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Cash and cash equivalents are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	877	9,809	3,242
US dollar	22	2,349	26,050
Hong Kong dollar	101	472	6,538
Others	—	—	<u>227</u>
	<u>1,000</u>	<u>12,630</u>	<u>36,057</u>

Cash and cash equivalents and bank overdrafts include the following for the purposes of the consolidated cash flow statements:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	1,000	12,630	36,057
Bank overdrafts (Note 20)	<u>(178)</u>	—	<u>(6,437)</u>
	<u>822</u>	<u>12,630</u>	<u>29,620</u>

**18 Share capital of the Company**

	<b>As at 31 December 2009 <i>HK\$'000</i></b>
Authorised capital: 3,500,000,000 shares of HK\$0.1 each	<u>350,000</u>
Issued capital:	
Issuance of 10,000 shares of HK\$0.1 each on 17 July 2009 (date of incorporation)	1
Issuance of 2,152,490,000 shares of HK\$0.1 each on 27 November 2009	<u>215,249</u>
	<u>215,250</u>

The Company was incorporated on 17 July 2009, with an authorised share capital of 3,500,000,000 shares of HK\$0.1 each and on the same date, 10,000 shares of HK\$0.1 each were issued for cash. On 27 November 2009, the Company issued 2,152,490,000 shares of HK\$0.1 each for the Reorganisation.

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19 Reserves

The Group:

	Attributable to the equity holders of the Company							
	Merger reserve (Note a) HK\$'000	Capital reserve (Note b) HK\$'000	Share issuance costs HK\$'000	Share-based compensation reserve (Note 28) HK\$'000	Statutory reserve (Note c) HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	Total HK\$'000
For the year ended 31 December 2007								
At 1 January 2007	(215,150)	–	–	–	–	35,294	–	(179,856)
Profit for the year	–	–	–	–	–	79,626	–	79,626
Dividends	–	–	–	–	–	(51,000)	–	(51,000)
At 31 December 2007	<u>(215,150)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>63,920</u>	<u>–</u>	<u>(151,230)</u>
For the year ended 31 December 2008								
At 1 January 2008	(215,150)	–	–	–	–	63,920	–	(151,230)
Profit for the year	–	–	–	–	–	86,045	–	86,045
Share-based compensation	–	–	–	2,137	–	–	–	2,137
Transfer to statutory reserve	–	–	–	–	5,756	(5,756)	–	–
At 31 December 2008	<u>(215,150)</u>	<u>–</u>	<u>–</u>	<u>2,137</u>	<u>5,756</u>	<u>144,209</u>	<u>–</u>	<u>(63,048)</u>
For the year ended 31 December 2009								
At 1 January 2009	(215,150)	–	–	2,137	5,756	144,209	–	(63,048)
Profit for the year	–	–	–	–	–	151,655	1,475	153,130
Share of net asset value by minority shareholders	–	–	–	–	–	(3,100)	3,100	–
Professional fees [●]	–	–	(17,924)	–	–	–	–	(17,924)
Share-based compensation	–	–	–	5,699	–	–	–	5,699
Release of share-based compensation reserve to capital reserve	–	7,836	–	(7,836)	–	–	–	–
Deemed contribution from equity holders upon Reorganisation	–	4,575	–	–	–	–	(4,575)	–
Transfer to statutory reserve	–	–	–	–	6,822	(6,822)	–	–
Dividends	–	–	–	–	–	(51,000)	–	(51,000)
At 31 December 2009	<u>(215,150)</u>	<u>12,411</u>	<u>(17,924)</u>	<u>–</u>	<u>12,578</u>	<u>234,942</u>	<u>–</u>	<u>26,857</u>

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**The Company:**

For the period from 17 July 2009 (date of incorporation) to 31 December 2009

	<b>Share premium</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Loss for the period	–	(50)	(50)
Share premium arising from Reorganisation (Note d)	34,750	–	34,750
At 31 December 2009	<u>34,750</u>	<u>(50)</u>	<u>34,700</u>

- (a) Merger reserve represents the difference between the share capital of the Company and the combined share capital of the subsidiaries (after eliminating intra-group investments and share capital) acquired by the Company pursuant to the Reorganisation.
- (b) Capital reserve represents the net assets attributable to minority shareholders which were acquired pursuant to the Reorganisation, and is treated as a deemed contribution from equity holders and the release of share-based compensation reserve upon the incentive shares being vested.
- (c) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC company is required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies’ production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.
- (d) Share premium represents the difference between the nominal value of shares issued by the Company pursuant to the Reorganisation and the aggregated net assets values of subsidiaries acquired.

**20 Bank borrowings**

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Non-current</b>			
Bank loans	18,860	–	89,003
<b>Current</b>			
Bank loans	–	18,860	111,858
Bank overdrafts	178	–	6,437
Trust receipts loans	2,973	60,385	28,279
	<u>3,151</u>	<u>79,245</u>	<u>146,574</u>
Total bank borrowings	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>

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The Group’s borrowings at the balance sheet dates were repayable as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	3,151	79,245	146,574
Between one and two years	18,860	–	48,347
Between two and five years	–	–	40,656
	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>

The effective interest rates per annum were as follows:

	<b>As at 31 December</b>						<b>2009</b>
	<b>2007</b>		<b>2008</b>		<b>2009</b>		
	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>	<i>US\$</i>	
Bank loans	6.39%	–	3.92%	–	1.78%	1.80%	5.31%
Bank overdrafts	7.50%	–	–	–	13.25%	–	–
Trust receipt loans	<u>6.50%</u>	<u>6.75%</u>	<u>4.74%</u>	<u>3.96%</u>	<u>5.03%</u>	<u>3.33%</u>	<u>–</u>

Bank borrowings are secured by buildings and land use right of the Group (Notes 8 and 9), personal guarantees provided by Mr. Wong and Ms. Ching, directors of the Company, and pledge of deposits and properties owned by Mr. Wong and Ms. Ching. In addition, bank borrowings of HK\$15,646,000 for a subsidiary are secured by corporate guarantees provided by the Company. Subsequent to 31 December 2009, the underlying banks have confirmed that the personal guarantees provided by Mr. Wong and Ms. Ching and pledge of deposits and properties owned by Mr. Wong and Ms. Ching will be replaced by corporate guarantees provided by the Company [●].

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values of non-current borrowings, are determined by discounting the future cash flows at the current market interest rate available to the Group.

Bank borrowings are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
US dollar	2,446	50,557	75,103
Hong Kong dollar	19,565	28,688	154,796
RMB	–	–	5,678
	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>

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**21 Finance lease obligations**

Details of finance lease obligations are analysed as follows:

	As at 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Total minimum lease payments under finance leases:			
– not later than one year	32,353	24,320	25,784
– later than one year and not later than five years	<u>25,736</u>	<u>15,021</u>	<u>33,338</u>
	58,089	39,341	59,122
Less: Future finance charges	<u>(3,665)</u>	<u>(1,617)</u>	<u>(4,146)</u>
Finance leases obligations	<u>54,424</u>	<u>37,724</u>	<u>54,976</u>
Analysis of present value of finance lease obligations:			
– not later than one year	29,851	23,144	23,505
– later than one year and not later than five years	<u>24,573</u>	<u>14,580</u>	<u>31,471</u>
	54,424	37,724	54,976
Less: Amounts due within one year included in current liabilities	<u>(29,851)</u>	<u>(23,144)</u>	<u>(23,505)</u>
	<u>24,573</u>	<u>14,580</u>	<u>31,471</u>

Finance lease obligations are denominated in Hong Kong dollar.

The effective interest rates per annum were as follows:

	As at 31 December		
	2007	2008	2009
Effective interest rates	<u>6.27%</u>	<u>4.68%</u>	<u>5.10%</u>

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22 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Deferred income tax assets to be recovered after more than 12 months	–	(709)	(278)
Deferred income tax liabilities to be settled after more than 12 months	–	2,590	–
	<u>–</u>	<u>1,881</u>	<u>(278)</u>

The gross movements on the deferred income tax account are as follows:

	Years ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
At beginning of year	(1,233)	–	1,881
Recognised/(derecognised) in the consolidated income statement	<u>1,233</u>	<u>1,881</u>	<u>(2,159)</u>
At end of year	<u>–</u>	<u>1,881</u>	<u>(278)</u>



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The movement in deferred income tax assets and liabilities during the years ended 31 December 2007, 2008 and 2009, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities:

	<b>Withholding tax relating to unremitted retained earnings HK\$’000</b>
At 1 January 2007	–
Recognised in the consolidated income statement	–
At 31 December 2007	–
Recognised in the consolidated income statement	<u>2,590</u>
At 31 December 2008	2,590
Derecognised in the consolidated income statement	<u>(2,590)</u>
At 31 December 2009	<u>–</u>

Starting from the year ended 31 December 2008, 5% withholding income tax is imposed on dividends relating to profits remitted from the Group’s PRC subsidiaries if such profits are not permanently reinvested. As at 31 December 2008, deferred income tax liabilities of HK\$2,590,000 have been provided on such unremitted earnings. Such deferred income tax liabilities have been derecognised during the year ended 31 December 2009 as the directors subsequently determined that such retained earnings are to be reinvested. As at 31 December 2009, deferred income tax liabilities of HK\$5,660,000 have not been recognised for the withholding tax and other taxes that would be payable on the remittance of retained earnings of the Group’s PRC subsidiaries amounting to HK\$113,204,000.

Deferred income tax assets:

	<b>Tax</b>		<b>Total</b>
	<b>Tax losses</b>	<b>depreciation</b>	<b>HK\$’000</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 January 2007	(5,649)	4,416	(1,233)
Recognised in the consolidated income statement	<u>5,649</u>	<u>(4,416)</u>	<u>1,233</u>
At 31 December 2007	–	–	–
Recognised in the consolidated income statement	<u>–</u>	<u>(709)</u>	<u>(709)</u>
At 31 December 2008	–	(709)	(709)
Recognised in the consolidated income statement	<u>–</u>	<u>431</u>	<u>431</u>
At 31 December 2009	<u>–</u>	<u>(278)</u>	<u>(278)</u>

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Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. There are no significant unrecognised tax loss as at 31 December 2007, 2008 and 2009, respectively.

**23 Trade and bills payables**

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	111,527	92,051	200,066
Bills payables	<u>10,631</u>	<u>32,675</u>	<u>48,359</u>
	<u><u>122,158</u></u>	<u><u>124,726</u></u>	<u><u>248,425</u></u>

The ageing analysis of trade and bills payables is as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	38,569	61,950	105,132
31 to 60 days	41,524	31,279	92,826
61 to 90 days	30,720	26,579	40,436
91 to 120 days	7,034	2,683	9,715
Over 120 days	<u>4,311</u>	<u>2,235</u>	<u>316</u>
	<u><u>122,158</u></u>	<u><u>124,726</u></u>	<u><u>248,425</u></u>

The carrying amounts of trade and bills payables approximate their fair values.

The carrying amounts of the trade and bills payables are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	649	1,584	15,640
US dollar	111,706	109,849	209,795
Hong Kong dollar	<u>9,803</u>	<u>13,293</u>	<u>22,990</u>
	<u><u>122,158</u></u>	<u><u>124,726</u></u>	<u><u>248,425</u></u>

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**24 Accruals and other payables**

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Payable for purchase of property, plant and equipment	6,092	11,005	17,028
Salary and wages payable	5,778	8,173	12,817
Accrued operating expenses	4,190	4,254	7,883
Advance receipts from customers	136	646	306
Provision for value-added tax and other taxes in the PRC	6,515	8,447	6,608
Other accruals and other payables	<u>5,905</u>	<u>5,614</u>	<u>7,569</u>
	<u>28,616</u>	<u>38,139</u>	<u>52,211</u>

The carrying amounts of accruals and other payables approximate their fair values.

**25 Revenue**

	Years ended 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue			
Sale of goods	<u>674,293</u>	<u>749,788</u>	<u>888,348</u>

**26 Other income/(losses) – net**

	Years ended 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment	(6,703)	–	–
Gain on disposal of financial assets at fair value through profit or loss	25,115	–	–
Fair value (losses)/gains on financial assets at fair value through profit or loss	(3)	(891)	347
Others	<u>636</u>	<u>448</u>	<u>851</u>
	<u>19,045</u>	<u>(443)</u>	<u>1,198</u>

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**27 Expenses by nature**

	Years ended 31 December		
	2007	2008	2009
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Employee benefit expenses (Note 28)	75,762	98,099	119,126
Cost of inventories (Note 11)	431,850	465,494	486,387
Auditor’s remuneration	153	742	1,454
Depreciation of property, plant and equipment	18,230	19,248	32,955
Operating lease rentals – office premises, factory and warehouse	4,194	5,142	5,265
Amortisation of land use right	150	82	115
Amortisation of intangible assets	–	–	1,441
Provision for impairment of trade receivables	153	–	–
Consumables	5,620	11,764	17,681
Electricity, water and utilities expenses	11,673	12,395	16,934
Freight and transportation	6,101	3,872	5,648
Research and development expenses			
– Consumables	2,283	2,045	–
– Employee benefit expenses (Note 28)	7,395	10,190	11,091
Others	<u>21,659</u>	<u>18,796</u>	<u>19,567</u>
Total cost of sales, distribution costs and administrative expenses	<u><u>585,223</u></u>	<u><u>647,869</u></u>	<u><u>717,664</u></u>

**28 Employee benefit expenses (including directors’ emoluments)**

	Years ended 31 December		
	2007	2008	2009
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Wages and salaries	80,962	100,084	125,989
Other employee benefits	1,124	5,132	6,044
Pension costs – defined contribution plans and social security costs	1,071	936	3,718
Share-based compensation expenses	<u>–</u>	<u>2,137</u>	<u>5,699</u>
	83,157	108,289	141,450
Less: amount recorded in research and development expenses (Note 27)	(7,395)	(10,190)	(11,091)
Less: amount capitalised as intangible assets (Note 10)	<u>–</u>	<u>–</u>	<u>(11,233)</u>
	<u><u>75,762</u></u>	<u><u>98,099</u></u>	<u><u>119,126</u></u>

**28 Employee benefit expenses (including directors’ emoluments)**

- (i) The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the “MPF Scheme”), which is a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a cap of HK\$1,000 and thereafter contributions are voluntary.
- (ii) As stipulated by the rules and regulations in the PRC, the subsidiary operating in the PRC contributes to state-sponsored retirement plans for its employees. The employees contribute approximately 8% of their basic salaries, while the subsidiary contributes approximately 17% of the basic salaries of its employees and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.
- (iii) Share-based compensation expenses

Pursuant to an Share Incentive Scheme (the “Scheme”) approved by the shareholders at a Shareholders’ Meeting of World Fair Technology Holdings Limited, the then ultimate holding company of World Fair Hong Kong, on 30 September 2008, certain ordinary shares (the “Incentive Shares”) of World Fair Hong Kong were confirmed to be granted to certain senior management personnel of the Group by World Fair Technology Holdings Limited, subject to certain vesting conditions. The Scheme is designed to motivate key management personnel and enable the Group to attract and retain individuals with experience and ability and to reward them for their contributions to the Group.

In accordance with HKFRS 2 “Share-based payment”, the Group is required to recognise the fair value of the Incentive Shares as share based compensation expense on a straight line basis over the relevant vesting periods. For this purpose, the Group has engaged an independent professional valuer to perform valuation of the Incentive Shares (the “Valuation”). Pursuant to the Valuation, the fair value of the Incentive Shares was determined based on the discounted cash flows method under the income approach using a five-year cash flows projections of the Group and the estimated terminal value at the end of the five-year period.

The key assumptions of the Valuation are:

– Revenue growth rate (five-year period)	2 – 10%
– Gross profit margin rate	21%
– Discount rate	15.5%
– Dividend rate	0%

There is no significant other features used in the discounted cash flows which would materially impact the Valuation.

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During the years ended 31 December 2008 and 2009, share-based payment expense of HK\$2,137,000 and HK\$5,699,000 were recognised in the consolidated income statement respectively. A corresponding amount was credited as share-based compensation reserve within equity in the Financial Information.

**29 Directors’ and senior management’s emoluments**

**(a) Directors’ emoluments**

The aggregate amounts of emoluments paid/payable to directors of the Group are as follows:

	Years ended 31 December		
	2007	2008	2009
	HK\$’000	HK\$’000	HK\$’000
Fees	960	960	960
Basic salaries, bonuses, other allowances and benefits in kind	1,402	2,435	5,009
Contributions to pension plans	24	29	41
Share-based compensation expenses	—	1,177	3,142
	<u>2,386</u>	<u>4,601</u>	<u>9,152</u>

The remuneration of every director of the Company paid/payable by the Group for the year ended 31 December 2007 is set out below:

Name of director (Note i)	Fees	Salary	Discretionary bonuses	Share-based compensation	Employer’s contribution	Total
					to pension scheme	
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Wong Kwok Fong	480	208	330	—	12	1,030
Ching Pui Yi	480	—	208	—	12	700
Tan Hui Kiat	—	656	—	—	—	656
	<u>960</u>	<u>864</u>	<u>538</u>	<u>—</u>	<u>24</u>	<u>2,386</u>

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The remuneration of every director of the Company paid/payable by the Group for the year ended 31 December 2008 is set out below:

Name of director (Note i)	Fees <i>HK\$'000</i>	Salary <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based compensation <i>HK\$'000</i>	Employer’s contribution	Total <i>HK\$'000</i>
					to pension scheme <i>HK\$'000</i>	
Wong Kwok Fong	480	270	800	–	12	1,562
Ching Pui Yi	480	–	408	755	12	1,655
Lam Ho Sang	–	285	–	211	5	501
Tan Hui Kiat	–	672	–	211	–	883
	<u>960</u>	<u>1,227</u>	<u>1,208</u>	<u>1,177</u>	<u>29</u>	<u>4,601</u>

The remuneration of every director of the Company paid/payable by the Group for the year ended 31 December 2009 is set out below:

Name of director (Note i)	Fees <i>HK\$'000</i>	Salary <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Share-based compensation <i>HK\$'000</i>	Employer’s contribution	Total <i>HK\$'000</i>
					to pension scheme <i>HK\$'000</i>	
Wong Kwok Fong	480	752	1,440	–	12	2,684
Ching Pui Yi	480	180	540	2,014	12	3,226
Cheung To Keung	–	666	–	–	5	671
Lam Ho Sang	–	800	–	564	12	1,376
Tan Hui Kiat	–	631	–	564	–	1,195
	<u>960</u>	<u>3,029</u>	<u>1,980</u>	<u>3,142</u>	<u>41</u>	<u>9,152</u>

Note:

- (i) The directors of the Company were appointed on the following dates:

	Date of appointment
<b>Executive directors</b>	
Wong Kwok Fong	17 July 2009
Ching Pui Yi	17 July 2009
Cheung To Keung	28 November 2009
Lam Ho Sang	28 November 2009
Tan Hui Kiat	28 November 2009
<b>Independent non-executive directors</b>	
Lee Kwok On, Matthew	28 November 2009
Chan Wai	28 November 2009
Wong Chun Bong	28 November 2009

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The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employee to the Group and/or in their capacity as directors of the Company during the Relevant Periods.

- (ii) No directors waived or agreed to waive any emoluments during the Relevant Periods. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the Relevant Periods.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include three directors for the Relevant Periods, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals for the Relevant Periods are as follows:

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, bonuses, other allowances and benefits in kind	1,035	1,422	1,389
Retirement benefit – defined contribution scheme	–	–	12
Share-based compensation expenses	–	423	1,430
	<u>1,035</u>	<u>1,845</u>	<u>2,831</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>		
	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Emolument bands			
Under HK\$1,000,000	2	2	–
HK\$1,000,001 – HK\$1,500,000	–	–	1
HK\$1,500,001 – HK\$2,000,000	–	–	1
	<u>–</u>	<u>–</u>	<u>–</u>

**30 Finance income and costs**

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance income			
– Interest income on bank deposits	<u>539</u>	<u>227</u>	<u>265</u>
Finance costs:			
– Bank loans	(1,962)	(1,448)	(3,096)
– Finance lease obligations	(4,425)	(2,600)	(2,220)
– Bank overdrafts and trust receipt loans	<u>(4,866)</u>	<u>(732)</u>	<u>(3,138)</u>
	<u>(11,253)</u>	<u>(4,780)</u>	<u>(8,454)</u>
Net finance costs	<u>(10,714)</u>	<u>(4,553)</u>	<u>(8,189)</u>



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**31 Income tax expense**

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax			
– current income tax	<u>16,542</u>	<u>8,997</u>	<u>12,722</u>
Deferred income tax (Note 22)	<u>1,233</u>	<u>1,881</u>	<u>(2,159)</u>
	<u><u>17,775</u></u>	<u><u>10,878</u></u>	<u><u>10,563</u></u>

Hong Kong profits tax has been provided at the rate of 17.5%, 16.5% and 16.5% on the estimated assessable profit for the years ended 31 December 2007, 2008 and 2009, respectively.

The statutory income tax rate applicable to World Fair Electronics Technology (Heshan) Limited, a subsidiary, is 25%. Pursuant to the relevant tax regulations in the PRC, the subsidiary is eligible for an exemption from the PRC enterprise income tax for two years starting with the first profit-making year, after offsetting prior year losses, followed by a 50% reduction for three immediate subsequent years. 5% withholding income tax is also imposed on dividends relating to profits earned in year 2008 and onwards remitted from the PRC subsidiary.

The first profit-making year (after offsetting prior year losses) of World Fair Electronics Technology (Heshan) Limited is the year ended 31 December 2008.

During the year ended 31 December 2008, as a result of the change in the Hong Kong corporation tax rate from 17.5% to 16.5% that will be effective from 1 April 2008, deferred tax balances have been remeasured.

The effective tax rates were as follows:

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Effective tax rates	18.2%	11.2%	6.5%

The lower effective tax rates during the Relevant Periods is primarily due to an increase in the profitability of the Group’s subsidiary in the PRC, which is exempted from PRC enterprise income tax during the Relevant Periods, and the impact of the reduction in the Hong Kong tax rate from 17.5% to 16.5% during the year ended 31 December 2008.

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The taxation on the Group’s profit before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits in the respective jurisdiction as follows:

	Years ended 31 December		
	2007	2008	2009
	HK\$’000	HK\$’000	HK\$’000
Profit before income tax	<u>97,401</u>	<u>96,923</u>	<u>163,693</u>
Tax calculated at domestic tax rates applicable to profits in the respective jurisdiction	14,476	19,644	35,015
Income not subject to tax	(49)	(6)	(1)
Expenses not deductible for tax purposes	1,677	1,527	1,890
Effect of tax exemption granted to a subsidiary in the PRC	1,671	(12,877)	(23,751)
Charge/(reversal) of withholding tax relating to unremitted retained earnings	<u>–</u>	<u>2,590</u>	<u>(2,590)</u>
Income tax expense	<u><u>17,775</u></u>	<u><u>10,878</u></u>	<u><u>10,563</u></u>

### 32 Earnings per share

#### (a) Basic

The basic earnings per share for each of the years ended 31 December 2007, 2008 and 2009 is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 2,152,500,000 shares issued after the completion of the Reorganisation were deemed to have been in issue since 1 January 2007.

	Years ended 31 December		
	2007	2008	2009
Profit attributable to equity holders of the Company (HK\$’000)	<u>79,626</u>	<u>86,045</u>	<u>151,655</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,152,500</u>	<u>2,152,500</u>	<u>2,152,500</u>
Basic earnings per share (HK cents)	<u>3.70</u>	<u>4.00</u>	<u>7.05</u>

#### (b) Diluted

As the Company had no dilutive ordinary shares for the Relevant Periods, diluted earnings per share for the Relevant Periods is not presented.

### 33 Dividends

The following dividends were declared by the subsidiaries of the Group during the Relevant Periods:

	Years ended 31 December		
	2007	2008	2009
	HK\$’000	HK\$’000	HK\$’000
Interim dividends declared and paid/payable by World Fair Hong Kong to its then shareholders	<u>51,000</u>	<u>–</u>	<u>51,000</u>

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The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

**34 Cash generated from operations**

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	97,401	96,923	163,693
Adjustments for:			
– Finance income	(539)	(227)	(265)
– Finance costs	11,253	4,780	8,454
– Depreciation of property, plant and equipment	18,230	19,248	32,955
– Amortisation of land use right	150	82	115
– Amortisation of intangible assets	–	–	1,441
– Loss on disposal of property, plant and equipment	6,703	–	–
– Provision for impairment of trade receivables	153	–	–
– Fair value losses/(gains) on financial assets at fair value through profit or loss	3	891	(347)
– Gain on disposal of financial assets at fair value through profit or loss	(25,115)	–	–
– Share-based compensation expenses	–	2,137	5,699
	<u>108,239</u>	<u>123,834</u>	<u>211,745</u>
Operating profit before working capital changes	108,239	123,834	211,745
Changes in working capital:			
– Inventories	(4,227)	11,492	(72,763)
– Trade receivables	(34,170)	17,313	(181,383)
– Prepayments, deposits and other receivables	1,642	(1,585)	(46,070)
– Amounts due from related companies	(7)	(13)	20
– Trade and bills payables	(3,645)	2,568	123,699
– Accruals and other payables	23,794	9,523	14,072
	<u>91,626</u>	<u>163,132</u>	<u>49,320</u>
Cash generated from operations	<u>91,626</u>	<u>163,132</u>	<u>49,320</u>

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book amount (Note 8)	6,829	–	–
Loss on disposal of property, plant and equipment	(6,703)	–	–
	<u>126</u>	<u>–</u>	<u>–</u>
Proceeds from disposal of property, plant and equipment	<u>126</u>	<u>–</u>	<u>–</u>

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Major non-cash transactions

- (a) The Group entered into finance lease arrangements in respect of machinery with a total capital amount at the inception of the lease of HK\$11,130,000, HK\$16,558,000 and HK\$38,148,000 for the years ended 31 December 2007, 2008 and 2009 respectively.
- (b) Dividend payable of HK\$5,000,000 declared by World Fair Hong Kong in September 2009, to its then shareholder, was settled through offsetting the amount due from a director during the year ended 31 December 2009.

**35 Operating lease commitments**

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease expenditure expensed in the consolidated income statement during the Relevant Periods is disclosed in Note 27 to the Financial Information.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	3,164	4,299	5,287
Later than one year and not later than five years	–	6,727	7,970
Later than five years	–	2,229	1,126
	<u>3,164</u>	<u>13,255</u>	<u>14,383</u>

**36 Capital commitments**

Capital commitments for property, plant and equipment as at the balance sheet date were as follows:

	<b>As at 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	<u>10,726</u>	<u>1,105</u>	<u>4,466</u>

**37 Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) The Group’s banking facilities were secured by personal guarantees provided by Mr. Wong and Ms. Ching, directors of the Company and pledge of deposits and properties owned by Mr. Wong and Ms. Ching.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

- (b) Balances with related parties are disclosed in Note 16 to the Financial Information.
- (c) In November 2009, the Group has entered into a three-year residential premises lease agreement with Mr. Wong which will take effect [●], pursuant to which World Fair Heshan agreed to lease from Mr. Wong’s residential premises in Jiangmen, the PRC, at a monthly rental of HK\$99,000 as residences for the Group’s senior management.
- (d) Key management compensation

	<b>Years ended 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Directors’ fees	960	960	960
Basic salaries, housing allowances, other allowances and benefits in kind	2,522	4,579	7,947
Contributions to pension plans	24	35	73
Share-based compensation expenses	<u>–</u>	<u>2,031</u>	<u>5,417</u>
	<u><b>3,506</b></u>	<u><b>7,605</b></u>	<u><b>14,397</b></u>

- (e) During the Relevant Periods, Mr. Wong provided premises to the Group’s employees as staff quarters at no charge.
- (f) Mr. Wong and Ms. Ching have agreed to fully indemnify the Group and hold the Group harmless for all costs and expenses in relation to the Group’s failure to obtain the requisite licenses and permits and any demolish costs for certain properties of the Group.
- (g) In April 2010, the Group entered into agreement with the Controlling Shareholders who agreed to indemnify the Group in respect of any costs or liabilities that may arise out of the additional tax assessments of a subsidiary (as disclosed in Note 38).

**38 Contingent liabilities**

In April 2010, a subsidiary of the Group received an additional assessment dated 30 March 2010 from the Hong Kong Inland Revenue Department (“IRD”) demanding an additional profits tax in the amount of HK\$1,750,000 for the year of assessment 2003/04. This subsidiary also received a notice from the IRD of even date requesting an interview in relation to its tax affairs for the years of assessment 2003/04 to 2008/09.

The directors of the Company believe that the additional assessment is of a protective nature and is issued to keep the year of assessment 2003/04 technically open in view of the statutory time-bar. The basis of the additional assessment adopted by the IRD is currently unclear and the matter is still in a preliminary stage. The IRD has not yet requested any information from the Group further to the notice of interview. The directors are thus of the view that there is no reliable basis for estimating and making provision for potential tax liabilities, if any, and the corresponding penalty and interest, if any, as at 31 December 2009. Accordingly, the additional profits tax of HK\$1,750,000 was not provided for but treated as a contingent liability in the Financial Information.

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## **APPENDIX I**

## **ACCOUNTANT’S REPORT**

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### **39 Subsequent events**

In March 2010, the Company declared an interim dividend in respect of the year ended 31 December 2009 of approximately HK\$15.4 million.

### **II SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2009. In addition, except as disclosed in Note 39 under section I, no dividends have been declared or paid by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2009.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

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## **APPENDIX III**

## **PROFIT FORECAST**

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*The forecast of the consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 is set out in the sections headed “Summary – Profit forecast for the six months ending 30 June 2010” and “Financial Information – Profit forecast for the six months ending 30 June 2010” of this document.*

### **(A) BASES AND ASSUMPTIONS**

Our Directors have prepared the consolidated profit attributable to equity holders of our Company for six months ending 30 June 2010 based on the unaudited management accounts of our Group for the four months ended 30 April 2010 and a forecast of the results of our Group for the remaining two months ending 30 June 2010. The forecast has been prepared based on accounting policies consistent in all material respects with those adopted by our Group as summarised in the accountant’s report, the text of which is set out in Appendix I in this document.

Our Directors have made the following principal assumptions in the preparation of the profit forecast:

- (a) There will be no material changes in existing laws and regulations, government policies or political, legal (including changes in legislation, regulations or rules), fiscal, market or economic conditions in the PRC, Hong Kong, or any of the countries or locations in which our Group carries on its business or to which it exports its products or from which it imports or sources its raw materials;
- (b) There will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing in the context of our Group’s operations;
- (c) There will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the countries or territories in which our Group operates, except as otherwise disclosed in this document;
- (d) Our Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents;
- (e) There will be no interruption of operations that will adversely affect our Group as a result of shortage in supply of raw materials and energy, labour shortage or disputes or any other circumstances which are beyond the control of our Directors. In addition, our Group will be able to recruit sufficient employees to meet its operating requirements during the forecast period; and
- (f) Our Group’s operations and financial performance will not be materially and adversely affected by any of the risk factors set forth in the section headed “Risk Factors” in this document.

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## **APPENDIX IV**

## **PROPERTY VALUATION**

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the property interests of our Group.*



Jones Lang LaSalle Sallmanns Limited  
17/F Dorset House Taikoo Place  
979 King's Road Quarry Bay Hong Kong  
tel +852 2169 6000 fax +852 2169 6001  
Licence No: C-030171

2010

The Board of Directors  
World Wide Touch Technology (Holdings) Limited  
Suites 2601-2602, 26/F, Tower 2  
Nina Tower  
No.8 Yeung Uk Road  
Tsuen Wan  
New Territories  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which World Wide Touch Technology (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), Taiwan and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2010 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Due to the nature of the buildings and structures of Part A of property no. 1 in Group I and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the remaining portion (Part B) of property no. 1 in Group I which is under construction, we have assumed that it will be developed and completed in accordance with the latest



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## **APPENDIX IV**

## **PROPERTY VALUATION**

development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group II, III and IV, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with [●]; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published from time to time by the Hong Kong Institute of Surveyors; and the IVS published from time to time by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with tenancy agreements relating to the property interests in Group III and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Jingtian and Gongcheng and Taiwan legal advisers – Lee and Li, concerning the validity of the property interests in the PRC and Taiwan.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services

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## **APPENDIX IV**

## **PROPERTY VALUATION**

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for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Jones Lang LaSalle Sallmanns Limited**  
**Paul L. Brown**  
*B.Sc. FRICS FHKIS*  
*Director*

*Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong and the United Kingdom, as well as relevant experience in the Asia-Pacific region, France and Germany.*

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**APPENDIX IV**

**PROPERTY VALUATION**

**SUMMARY OF VALUES**

**Group I – Property interest held and occupied by the Group in the PRC**

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 March 2010 <i>RMB</i>
1.	A parcel of land, various buildings and structures located at New Material Base Gonghe Town Heshan City Guangdong Province The PRC	66,280,000	100%	66,280,000
<b>Sub-total:</b>		<b><u>66,280,000</u></b>		<b><u>66,280,000</u></b>

**Group II – Property interests leased and occupied by the Group in the PRC**

No.	Property	Capital value in existing state as at 31 March 2010 <i>RMB</i>
2.	Levels 3 to 6 of a residential building No. 40 Hecheng Avenue Hecheng Town Heshan City Guangdong Province The PRC	No commercial value
3.	80 residential units on Levels 3 to 6 of Block B located at Fudefeng Community Hecheng Town Heshan City Guangdong Province The PRC	No commercial value
4.	97 residential units on Levels 2 to 4 of Fenghuangcheng Building located at Daluchun Village Gonghe Town Heshan City Guangdong Province The PRC	No commercial value

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**APPENDIX IV**

**PROPERTY VALUATION**

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<b>No.</b>	<b>Property</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
5.	140 units of 2 residential buildings located at Tiegang Community Tiegang Village Gonghe Town Heshan City Guangdong Province The PRC	No commercial value
6.	4 industrial buildings located at Tiegang Industrial Zone Gonghe Town Heshan City Guangdong Province The PRC	No commercial value
7.	Unit 705 of Block 3 No. 38 Bao Li Ya Yuan Yushan Road Suzhou New District Suzhou City Jiangsu Province The PRC	No commercial value
8.	Units 1006 to 1008 of Metropolitan Towers No. 199 Shishan Road Suzhou New District Suzhou City Jiangsu Province The PRC	No commercial value
9.	Unit 502 of Suite B Block 2 of Jia Hua Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	No commercial value
10.	Units 1002 and 1704 Block 9 of Lang Qing Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	No commercial value

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**APPENDIX IV**

**PROPERTY VALUATION**

<b>No. Property</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
11. Units 1001, 1702, 2202 and 2203 of Suite B Kai Xuan Ting Zhu Jiang Di Jing Wan located at Pengjiang District Jiangmen City Guangdong Province The PRC	No commercial value
12. Units 801, 808, 908 and 1008 Block 11 of Jinhui City Plaza located at Pengjiang District Jiangmen City Guangdong Province The PRC	No commercial value
13. Unit 1003 Block 6 of Lang Qing Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	No commercial value
<b>Sub-total:</b>	<u>Nil</u>

**Group III – Property interests leased and occupied by the Group in Hong Kong**

<b>No. Property</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
14. Workshop Nos. 1-3 and 5-12 on 3rd Floor and Workshop Nos. 1-3 and 5-12 on 10th Floor Sunley Centre No. 9 Wing Yin Street Kwai Chung New Territories Hong Kong	No commercial value

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**APPENDIX IV**

**PROPERTY VALUATION**

<b>No. Property</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
15. Suites 2601 and 2602 26th Floor Tower 2, Nina Tower No. 8 Yeung Uk Road Tsuen Wan New Territories Hong Kong	No commercial value
<b>Sub-total:</b>	<u>Nil</u>

**Group IV – Property interest leased and occupied by the Group in Taiwan**

<b>No. Property</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
16. Unit 3 on 12th Floor No. 408 Rueiguang Road Neihu District Taipei City Taiwan	No commercial value
<b>Sub-total:</b>	<u>Nil</u>

<b>Capital value in existing state as at 31 March 2010 RMB</b>	<b>Capital value attributable to the Group as at 31 March 2010 RMB</b>
<b>Grand total:</b>	<u><u>66,280,000</u></u>
	<u><u>66,280,000</u></u>

*Notes:*

- On 16 November 2009, the Group entered into a Tenancy Agreement with a connected party to rent a property with a lettable area of approximately 3,699.79 sq.m. in the PRC for residential purpose. However, the commencement date of the tenancy is after the date of valuation. Please refer to page IV-26 for the details of such property.
- On 12 April 2010, the Group entered into a Tenancy Agreement with various independent third parties to rent a property with a lettable area of approximately 10,582 sq.ft. in Hong Kong for office purpose. However, the commencement date of the tenancy is after the date of valuation. Please refer to page IV-27 for the details of such property.

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

No. Property	Description and tenure	Particulars of occupancy	Capital value																				
			in existing state as at 31 March 2010 RMB																				
1. A parcel of land, various buildings and structures located at New Material Base Gonghe Town Heshan City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 124,906.2 sq.m. and 9 buildings and various ancillary structures erected thereon which were completed in various stages between 2005 and 2009. ("Part A")</p> <p>The buildings of Part A have a total gross floor area of approximately 40,316.9 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td>1</td> <td>19,776.46</td> </tr> <tr> <td>Office</td> <td>1</td> <td>3,592.22</td> </tr> <tr> <td>Canteen</td> <td>3</td> <td>6,185.64</td> </tr> <tr> <td>Staff quarters</td> <td>2</td> <td>9,806.04</td> </tr> <tr> <td>Ancillary</td> <td>2</td> <td>956.54</td> </tr> <tr> <td><b>Total</b></td> <td><b>9</b></td> <td><b>40,316.9</b></td> </tr> </tbody> </table>	Use	No. of Item	Gross floor Area (sq.m.)	Production	1	19,776.46	Office	1	3,592.22	Canteen	3	6,185.64	Staff quarters	2	9,806.04	Ancillary	2	956.54	<b>Total</b>	<b>9</b>	<b>40,316.9</b>	<p>Part A is currently occupied by the Group for production, storage, office, staff quarters and ancillary facilities purposes, whilst, the buildings of Part B are pending construction.</p> <p>66,280,000</p> <p>100% interest attributable to the Group: RMB 66,280,000</p>
Use	No. of Item	Gross floor Area (sq.m.)																					
Production	1	19,776.46																					
Office	1	3,592.22																					
Canteen	3	6,185.64																					
Staff quarters	2	9,806.04																					
Ancillary	2	956.54																					
<b>Total</b>	<b>9</b>	<b>40,316.9</b>																					

The structures of Part A mainly include boundary fences, roads and gates.

In addition to Part A, the property also comprises 4 non-completed buildings (2 industrial buildings, a warehouse and a staff quarters) on the land parcel of Part A, of which the construction works had been suspended as at the date of valuation. ("Part B")

The land use rights of the property have been granted for a term of 50 years expiring on 10 March 2055 for industrial use.

*Notes:*

1. Pursuant to a Land Use Rights Transfer Contract (土地使用權轉讓合同書) dated 29 November 2004 entered into between the People’s Government of Gonghe Town, Heshan City (鶴山市共和鎮人民政府) and Heshan World Fair Electronics Technology Ltd. (“World Fair Heshan”), the land use rights of a parcel of land with a site area of approximately 124,906.2 sq.m. were contracted to be transferred to World Fair Heshan for industrial use. The land premium was RMB5,904,000.
2. Pursuant to a State-owned Land Use Rights Certificate – He Guo Yong (2009) Di No. 002497, the land use rights of a parcel of land with a site area of approximately 124,906.2 sq.m. have been granted to World Fair Heshan for a term of 50 years expiring on 10 March 2055 for industrial use.
3. Pursuant to 7 Real Estate Title Certificates – Yue Fang Di Zheng Zi Di Nos. C4525993 to C4525995, C4577177, C4577178, C7065473 and C7065474, 7 buildings with a total gross floor area of approximately 39,700.9 sq.m. are owned by World Fair Heshan and the relevant land use rights have been granted to World Fair Heshan for a term of 50 years expiring on 10 March 2055 for industrial use.
4. Pursuant to a Construction Land Planning Permit – Di Zi Di No. 440784200900405 dated 23 December 2009 issued by Heshan Urban Construction Bureau (鶴山市建設局) in favour of World Fair Heshan, permission towards the planning of the site of an industrial building of Part B of the property known as the Research & Development Building (the “R&D Building”) with a site area of approximately 3,298 sq.m. has been granted to World Fair Heshan.
5. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 440784200900422 dated 23 December 2009 issued by Heshan Urban Construction Bureau in favour of World Fair Heshan, the R&D Building with a total gross floor area of approximately 9,446 sq.m. has been approved for construction.
6. Pursuant to 4 Mortgage Contracts of Maximum Amount (Nos. GDY475022006032, GDY475022006080, GDY475022006081 and GDY475022009031) dated 5 July 2006, 9 November 2009, 10 November 2006 and 28 September 2009 respectively, the land use rights of a parcel of land with a site area of approximately 124,906.2 sq.m. and 7 buildings with a total gross floor area of approximately 39,700.9 sq.m. are subject to mortgages in favour of Jiangmen Branch of Bank of China (the “Bank”) as security to guarantee for the principals under 6 loan contracts (Nos. GDK47502142009037, GDK47502132009087, GDK47502132009088, GDK4750214200916, GDK475022008103 and GDK47502142010056) entered into between the Bank and World Fair Heshan for amounts of USD600,000, HKD5,500,000, HKD22,000,000, USD800,000, RMB5,000,000 and USD600,000 respectively with various security terms expiring on between 1 July 2016 and 31 December 2018.
7. In the valuation of this property, we have attributed no commercial value to the remaining 2 buildings of Part A with a total gross floor area of approximately 616 sq.m. which have not obtained any proper title certificate and the buildings of Part B which have not obtained any Construction Work Commencement Permits. However, for reference purpose, we are of the opinion that the depreciated replacement cost of them (excluding the land) as at the date of valuation would be RMB23,288,000 assuming all relevant title certificates and construction permits have been obtained and they could be freely transferred.
8. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Group has fully paid up the land premium of the property and has legally and validly obtained the land use rights of the property;
  - b. Subject to note 8(f) below, the Group has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights of the property in accordance with the PRC laws;
  - c. The Group has legally and validly obtained the ownership rights of the buildings mentioned in note 3 and has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of such buildings in accordance with the PRC laws without obtaining any approvals, permits or consents from any government authorities;



- d. Except for the aforesaid mortgages, the land use rights of the property and the ownership rights of the buildings mentioned in note 3 are not subject to any restrictions arising from any other guarantee, mortgage, sequestration or any third parties rights;
- e. For the remaining 2 buildings of Part A with a total gross floor area of approximately 616 sq.m. which have not obtained any proper title certificate, the Group might be subject to penalty by the relevant local authorities;
- f. For the land use rights of the property and ownership rights of the buildings which are subject to mortgages mentioned above, the Group should obtain written consent from the mortgagee in advance when transferring or otherwise disposing of such land use rights and buildings;
- g. For Part B which has not obtained any Construction Work Commencement Permits, the Group might be subject to penalty by the relevant authorities due to the absence of such construction permits. Pursuant to 3 Orders – He Jian Ting [2008] Nos. 53, 60 and He Jian Ting [2009] No. 9 from Heshan Municipal Development Bureau dated 25 September 2008, 12 November 2008 and 17 March 2009 respectively, the construction works of Part B were ordered to be ceased immediately; and
- h. Pursuant to a Confirmation Letter dated 18 January 2010 issued by the Local Construction Office of the People’s Government of Gonghe Town, Heshan City (鶴山市共和鎮人民政府村鎮建設辦公室), the Group had submitted an application to the local authority for planning permits and/or construction permits in respect of Part B of the property in August 2009, and the relevant procedures are being processed.

**VALUATION CERTIFICATE**

**Group II – Property interests leased and occupied by the Group in the PRC**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
2.	Levels 3 to 6 of a residential building No. 40 Hecheng Avenue Hecheng Town Heshan City Guangdong Province The PRC	<p>The property comprises Levels 3 to 6 of a 6-storey residential building completed in about 2007.</p> <p>The property has a total lettable area of approximately 5,200 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term of 2 years expiring on 31 December 2010, at a monthly rent of RMB18,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 25 December 2008, the property is leased to Heshan World Fair Electronics Technology Ltd. from Heshan Huanyu Trading Company Limited (鶴山市環宇貿易有限公司) (“Heshan Huanyu”) for a term of 2 years expiring on 31 December 2010, at a monthly rent of RMB18,000 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. Heshan Huanyu is not a connected party to the Company;
  - b. Heshan Huanyu has obtained legal and valid Real Estate Title Certificate in respect of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by Heshan Huanyu, however, as the lessee, the Group will not be subject to any penalty arising from Heshan Huanyu’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
3.	80 residential units on Levels 3 to 6 of Block B located at Fudefeng Community Hecheng Town Heshan City Guangdong Province The PRC	<p>The property comprises 80 residential units on Levels 3 to 6 of a 6-storey residential building completed in about 2008.</p> <p>The property has a total lettable area of approximately 3,471.28 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 1 February 2009 and expiring on 30 September 2010, at a monthly rent of RMB16,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 15 January 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Heshan Fudefeng Real Estate Development Company Limited (鶴山市富德豐房地產開發有限公司) (“Heshan Fudefeng”) for a term commencing from 1 February 2009 and expiring on 30 September 2010, at a monthly rent of RMB16,000 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. Heshan Fudefeng is not a connected party to the Company;
  - b. Heshan Fudefeng has obtained confirmation from Heshan Urban Real Estate Administration Bureau (鶴山市房地產管理局) of its ownership rights in respect of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by Heshan Fudefeng, however, as the lessee, the Group will not be subject to any penalty arising from Heshan Fudefeng’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
4.	97 residential units on Levels 2 to 4 of Fenghuangcheng Building located at Daluchun Village Gonghe Town Heshan City Guangdong Province The PRC	<p>The property comprises 97 residential units on Levels 2 to 4 of a 4-storey residential building completed in about 2008.</p> <p>The property has a total lettable area of approximately 1,800 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 1 January 2009 and expiring on 30 June 2013, at a monthly rent of RMB29,100 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 15 January 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Zhong Xinhua (鐘新華) (the “Lessor”) for a term commencing from 1 January 2009 and expiring on 30 June 2013, at a monthly rent of RMB29,100 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessor is not a connected party to the Company;
  - b. The Lessor cannot provide any title certificate to prove his legal ownership rights to the property and the relevant land use rights, and therefore the company’s PRC legal advisers cannot ascertain whether the Lessor is the legal owner of the property and whether the property is legally constructed under the PRC laws; and
  - c. In case that the Lessor is not the legal owner of the property or the property is an illegal structure under the PRC laws, the Tenancy Agreement in respect of the property might be deemed invalid, as a result of which, the Group may not be able to continue leasing and using the property. However, the Group can claim for full and prompt compensation from the Lessor for all resulting losses or losses of all anticipated reasonable benefits.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
5.	140 units of 2 residential buildings located at Tiegang Community Tiegang Village Gonghe Town Heshan City Guangdong Province The PRC	<p>The property comprises 140 residential units on Levels 2 to 6 of a 6-storey residential building and Levels 1 to 8 of an 8-storey residential building completed in about 2008.</p> <p>The property has a total lettable area of approximately 2,520 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from 2 independent third parties for a term commencing from 20 April 2009 and expiring on 19 April 2011, at a monthly rent of RMB16,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 20 April 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Lv Zhenqin and Lv Shenian (呂振欽及呂社年) (the “Lessors”) for a term commencing from 20 April 2009 and expiring on 19 April 2011, at a monthly rent of RMB16,000 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessors are not connected parties to the Company;
  - b. The Lessors cannot provide any title certificate to prove their legal ownership rights to the property and the relevant land use rights, and therefore the company’s PRC legal advisers cannot ascertain whether the Lessors are the legal owners of the property and whether the property is legally constructed under the PRC laws; and
  - c. In case that the Lessors are not the legal owners of the property or the property is an illegal structure under the PRC laws, the Tenancy Agreement in respect of the property might be deemed invalid, as a result of which, the Group may not be able to continue leasing and using the property. However, the Group can claim for full and prompt compensation from the Lessors for all resulting losses or losses of all anticipated reasonable benefits.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
6.	4 industrial buildings located at Tiegang Industrial Zone Gonghe Town Heshan City Guangdong Province The PRC	<p>The property comprises 2 single-storey industrial buildings, a 2-storey industrial building and a 4-storey industrial building completed in about 2008.</p> <p>The property has a total lettable area of approximately 7,771.17 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 1 January 2009 and expiring on 1 January 2016, at a monthly rent of RMB82,600 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for production purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 26 December 2008, the property is leased to Heshan World Fair Electronics Technology Ltd. from Jiangmen Bahao Lamp Manufacturing Company Limited (江門市霸豪燈具製造有限公司) (“Jiangmen Bahao”) for a term commencing from 1 January 2009 and expiring on 1 January 2016, at a monthly rent of RMB82,600 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. Jiangmen Bahao is not a connected party to the Company;
  - b. Jiangmen Bahao has obtained legal and valid Real Estate Title Certificates in respect of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by Jiangmen Bahao, however, as the lessee, the Group will not be subject to any penalty arising from Jiangmen Bahao’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
7.	Unit 705 of Block 3 No. 38 Bao Li Ya Yuan Yushan Road Suzhou New District Suzhou City Jiangsu Province The PRC	<p>The property comprises a unit on Level 7 of a 16-storey residential building completed in about 2007.</p> <p>The property has a lettable area of approximately 99 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 1 September 2009 and expiring on 31 August 2010, at a monthly rent of RMB2,630 exclusive of management fees, water and electricity charges.</p>	<p>The property is currently occupied by the Group for residential purpose.</p>	<p>No commercial value</p>

*Notes:*

1. Pursuant to a Tenancy Agreement dated 30 August 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Duan Yahui (段亞輝) (the “Lessor”) for a term commencing from 1 September 2009 and expiring on 31 August 2010, at a monthly rent of RMB2,630 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100 % interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessor is not a connected party to the Company;
  - b. The Lessor has obtained legal and valid Building Ownership Certificate and Land Use Rights Certificate in respect of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by the Lessor, however, as the lessee, the Group will not be subject to any penalty arising from the Lessor’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2010 RMB
8.	Units 1006 to 1008 of Metropolitan Towers No. 199 Shishan Road Suzhou New District Suzhou City Jiangsu Province The PRC	<p>The property comprises 3 office units on Level 10 of a 56-storey office building completed in about 2005.</p> <p>The property has a total lettable area of approximately 536.38 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from 2 independent third parties for a term commencing from 1 March 2010 and expiring on 28 February 2015, at a monthly rent of RMB32,180 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 25 February 2010, the property is leased to Heshan World Fair Electronics Technology Ltd. from Xie Jun and Chen Jincheng (謝君及陳津成) (the “Lessors”) for a term commencing from 1 March 2010 and expiring on 28 February 2015, at a monthly rent of RMB32,180 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessors are not connected parties to the Company;
  - b. The Lessors have obtained legal and valid Building Ownership Certificates and Land Use Rights Certificates in respect of the property and have the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by the Lessors, however, as the lessee, the Group will not be subject to any penalty arising from the Lessors’ failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.



**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
9.	Unit 502 of Suite B Block 2 of Jia Hua Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	The property comprises a unit on Level 5 of an 11-storey residential building completed in about 2004.  The property has a lettable area of approximately 93.2 sq.m.  The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 14 September 2009 and expiring on 13 September 2010, at a monthly rent of RMB2,300 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 11 September 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from An Ning (安寧) (the “Lessor”) for a term commencing from 14 September 2009 and expiring on 13 September 2010, at a monthly rent of RMB2,300 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100 % interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessor is not a connected party to the Company;
  - b. The Lessor has obtained legal and valid Real Estate Title Certificate in respect of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by the Lessor, however, as the lessee, the Group will not be subject to any penalty arising from the Lessor’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
10.	Units 1002 and 1704 Block 9 of Lang Qing Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	The property comprises 2 units on Levels 10 and 17 of a 17-storey residential building completed in about 2008.  The property has a total lettable area of approximately 177.39 sq.m.  The property is leased to Heshan World Fair Electronics Technology Ltd. from 2 independent third parties for terms commencing from 14 July 2009 and 18 November 2009 and expiring on 13 July 2010 and 17 November 2010 respectively, at a total monthly rent of RMB4,900 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to 2 Tenancy Agreements dated 13 July 2009 and 16 November 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Lin Yichao and Chen Wanling (林一超及陳婉玲) (the “Lessors”) for terms commencing from 14 July 2009 and 18 November 2009 and expiring on 13 July 2010 and 17 November 2010 respectively, at a total monthly rent of RMB4,900 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100 % interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessors are not connected parties to the Company;
  - b. The Lessors cannot provide any title certificate to prove their legal ownership rights to the property and the relevant land use rights, and therefore the company’s PRC legal advisers cannot ascertain whether the Lessors are the legal owners of the property and whether the property is legally constructed under the PRC laws; and
  - c. In case that the Lessors are not the legal owners of the property or the property is an illegal structure under the PRC laws, the Tenancy Agreements in respect of the property might be deemed invalid, as a result of which, the Group may not be able to continue leasing and using the property. However, the Group can claim for full and prompt compensation from the Lessors for all resulting losses or losses of all anticipated reasonable benefits.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
11.	Units 1001, 1702, 2202 and 2203 of Suite B Kai Xuan Ting Zhu Jiang Di Jing Wan located at Pengjiang District Jiangmen City Guangdong Province The PRC	The property comprises 4 units on Levels 1, 17 and 22 of a 24-storey residential building completed in about 2009.  The property has a total lettable area of approximately 455.33 sq.m.  The property is leased to Heshan World Fair Electronics Technology Ltd. from 5 independent third parties for terms with various expiry dates between 5 July 2010 and 5 October 2010, at a total monthly rent of RMB12,000 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to 4 Tenancy Agreements dated 24 December 2009, 17 September 2009, 5 October 2009 and 25 September 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Luo Weirong, Liao Feng, Yin Caiyan, Feng Runqiang and Feng Runyuan (羅偉榮、廖峰、尹彩顏、馮潤強和馮潤元) (the “Lessors”) for terms with various expiry dates between 5 July 2010 and 5 October 2010, at a total monthly rent of RMB12,000 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100 % interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessors are not connected parties to the Company;
  - b. The Lessors cannot provide any title certificate to prove their legal ownership rights to the property and the relevant land use rights, and therefore the Company’s PRC legal advisers cannot ascertain whether the Lessors are the legal owners of the property and whether the property is legally constructed under the PRC laws; and
  - c. In case that the Lessors are not the legal owners of the property or the property is an illegal structure under the PRC laws, the Tenancy Agreements in respect of the property might be deemed invalid, as a result of which, the Group may not be able to continue leasing and using the property. However, the Group can claim for full amount and prompt compensation from the Lessors for all resulting losses or losses of all anticipated reasonable benefits.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
12.	Units 801, 808, 908 and 1008 Block 11 of Jinhui City Plaza located at Pengjiang District Jiangmen City Guangdong Province The PRC	<p>The property comprises 4 units on Levels 8 to 10 of a 19-storey residential building completed in about 2008.</p> <p>The property has a total lettable area of approximately 474.29 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from 3 independent third parties for terms commencing from 16 October 2009 and 22 March 2010 and expiring on 16 October 2010 and 21 March 2011 respectively, at a total monthly rent of RMB12,700 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to 4 Tenancy Agreements dated 16 October 2009 and 22 March 2010, the property is leased to Heshan World Fair Electronics Technology Ltd. from Gao Xiaoting, Chen Caiyun and Li Kuizhen (高曉婷, 陳彩勻及黎瑞珍) (the “Lessors”) for terms commencing from 16 October 2009 and 22 March 2010 and expiring on 16 October 2010 and 21 March 2011 respectively, at a total monthly rent of RMB12,700 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessors are not connected parties to the Company;
  - b. The Lessors cannot provide any title certificate to prove their legal ownership rights to the property and the relevant land use rights, and therefore the Company’s PRC legal advisers cannot ascertain whether the Lessors are the legal owners of the property and whether the property is legally constructed under the PRC laws; and
  - c. In case that the Lessors are not the legal owners of the property or the property is an illegal structure under the PRC laws, the Tenancy Agreements in respect of the property might be deemed invalid, as a result of which, the Group may not be able to continue leasing and using the property. However, the Group can claim for full amount and prompt compensation from the Lessors for all resulting losses or losses of all anticipated reasonable benefits.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
13.	Unit 1003 Block 6 of Lang Qing Yuan Zhongtian International Garden located at Pengjiang District Jiangmen City Guangdong Province The PRC	<p>The property comprises a unit on Level 10 of a 17-storey residential building completed in about 2008.</p> <p>The property has a lettable area of approximately 123.52 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from an independent third party for a term commencing from 20 November 2009 and expiring on 19 November 2010, at a monthly rent of RMB3,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

*Notes:*

1. Pursuant to a Tenancy Agreement dated 19 November 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Chen Junzhang (陳俊展) (the “Lessor”) for a term commencing from 20 November 2009 and expiring on 19 November 2010, at a monthly rent of RMB3,000 exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100 % interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessor is not a connected party to the Company;
  - b. The Lessor has obtained the legal and valid Real Estate Title Certificate of the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property are legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by the Lessor, however, as the lessee, the Group will not be subject to any penalty arising from the Lessor’s failure to procure such registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

**Group III – Property interests leased and occupied by the Group in Hong Kong**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
14.	Workshop Nos. 1-3 and 5-12 on 3rd Floor and Workshop Nos. 1-3 and 5-12 on 10th Floor Sunley Centre No. 9 Wing Yin Street Kwai Chung New Territories Hong Kong	<p>The property comprises 22 units on the 3rd and 10th Floors of an 18-storey industrial building completed in about 1996.</p> <p>The property has a total lettable area of approximately 20,684 sq.ft. (1,921.6 sq.m.)</p> <p>Pursuant to 2 Tenancy Agreements entered into between (a) Cybertouch-Tech Company Limited and World Fair International Limited and (b) Cybertouch-Tech Company Limited, as Tenant and Weiland Development Company Limited as Landlord, an independent third party, the property is leased by the Group for terms both commencing from 1 January 2010 and expiring on 31 December 2010 and 31 March 2010 respectively, at a monthly rent of HK\$44,385 and HK\$44,471 respectively exclusive of rates, government rent and management fees.</p>	<p>The units on 10th Floor were occupied by the Group for warehouse and ancillary office purposes as at the date of valuation, whilst, the units on 3rd Floor are currently occupied by the Group for workshop purpose.</p>	No commercial value

*Notes:*

1. The registered owner of the property is Weiland Development Company Limited vide Memorial No. TW812020 dated 30 January 1992.
2. The property is subject to three Modification Letters vide Memorial Nos. TW784802 dated 18 September 1991, TW1054009 dated 23 April 1996 and TW1194872 dated 1 February 1998.
3. The property is subject to an Occupation Permit No. NT61/96 vide Memorial No. TW1063439 dated 3 June 1996.
4. Cybertouch-Tech Company Limited and World Fair International Limited are 100% interest owned subsidiaries of the Company.
5. The tenancy of Workshop Nos. 1-3 and 5-12 on 10th Floor expired on 31 March 2010. As advised by the Group, the tenancy is not renewed and these units are not currently leased and occupied by the Group.

**VALUATION CERTIFICATE**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
15.	Suites 2601 and 2602 26th Floor, Tower 2, Nina Tower No. 8 Yeung Uk Road Tsuen Wan New Territories Hong Kong	<p>The property comprises 2 office units on the 26th floor of an 82-storey composite building (office and hotel) completed in about 2007.</p> <p>The property has a total lettable area of approximately 10,418 sq.ft. (967.86 sq.m.)</p> <p>Pursuant to a Tenancy Agreement entered into between World Fair International Limited, as Tenant and Ying Ho Company Limited, Cheong Ming Investment Company Limited, Dorfolk Investments Limited, Kwong Fook Investors &amp; Developers Limited, The World Realty Limited, On Lee Investment Company Limited, Yau Fook Hong Company Limited and Tsing Lung Investment Company Limited as Landlord, independent third parties, the property is leased by the Group for a term of 3 years commencing from 6 July 2009 and expiring on 5 July 2012 (see note 2 below for details).</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

1. The registered owners of the property are Ying Ho Company Limited (671/1000), Cheong Ming Investment Company Limited (85/1000), Dorfolk Investments Limited (8/1000), Kwong Fook Investors & Developers Limited (9/1000), The World Realty Limited (30/1000), On Lee Investment Company Limited (1/1000), Yau Fook Hong Company Limited (181/1000) and Tsing Lung Investment Company Limited (15/1000) (Tenants in common) vide New Grant No. 6890 of Tsuen Wan Town Lot No. 353.
2. Pursuant to a Tenancy Agreement (Counterpart) dated 17 July 2009, the property is leased for a term of 3 years commencing from 6 July 2009 and expiring on 5 July 2012 in favour of World Fair International Limited at a monthly rent of HKD140,643 exclusive of rates, management fees and air-conditioning charges with an option to renew further 2 years at fair market rent vide Memorial No. 09072102520013.
3. World Fair International Limited is a 100% interest owned subsidiary of the Company.

**VALUATION CERTIFICATE**

**Group IV – Property interest leased and occupied by the Group in Taiwan**

<b>No.</b>	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 31 March 2010 RMB</b>
16.	Unit 3 on 12th Floor No. 408 Rueiguang Road Neihu District Taipei City Taiwan	<p>The property comprises a unit on the 12th floor of a 12-storey office building completed in about 2006.</p> <p>The unit has a lettable area of approximately 112.66 sq.m.</p> <p>The property is leased to World Fair International Limited Taiwan Branch from Lead Year Enterprise Company Limited (力億企業股份有限公司), an independent third party, for a term commencing from 1 March 2009 and expiring on 31 March 2012 at a monthly rent of NT\$152,091, exclusive of rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

*Notes:*

1. World Fair International Limited Taiwan Branch (“World Fair Taiwan”) is a branch office of World Fair International Limited, a 100% interest owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property is leased to World Fair Taiwan from Lead Year Enterprise Company Limited for a term commencing from 1 March 2009 and expiring on 31 March 2012 at a monthly rent of NT\$152,091, exclusive of rates, management fees, water and electricity charges.
3. Pursuant to a Notarial Certificate – Jiu Shi Ba Nian Du Bei Yuan Min Gong Sheng Zi Di No. 700060 dated 17 February 2009, the Tenancy Agreement of the property has been notarised by The Equidad Notary Public Office of Taipei District Court.
4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s Taiwan legal advisers, which contains, *inter alia*, the following:
  - a. The property is held under lease by World Fair Taiwan under valid and enforceable lease with such exceptions which are not material and which do not materially interfere with the use made and proposed to be made of such property by World Fair Taiwan.



**VALUATION CERTIFICATE**

**Property interest leased and occupied by the Group in the PRC with commencement date of the tenancy after the date of valuation**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>
28 residential units of Yifeng Garden, Yile Garden and Zhu Jiang Di Jing Wan located at Pengjiang District Jiangmen City Guangdong Province The PRC	<p>The property comprises 2 units on Level 22 of a 24-storey residential building in Yifeng Garden, 9 units on Levels 2 to 4, 9, 11 and 12 of a 13-storey residential building in Yile Garden and 9 units on Levels 2 to 4 of a 24-storey residential building in Zhu Jiang Di Jing Wan completed in about 2007, 2004 and 2009 respectively.</p> <p>The property has a total lettable area of approximately 3,699.79 sq.m.</p> <p>The property is leased to Heshan World Fair Electronics Technology Ltd. from a connected party for a term of 3 years commencing from [●], at an annual rent of RMB1,044,000 exclusive of management fees, water and electricity charges.</p>	<p>The property is currently occupied by the Group for residential purpose at nil rent.</p>

*Notes:*

1. Pursuant to a Tenancy Agreement dated 16 November 2009, the property is leased to Heshan World Fair Electronics Technology Ltd. from Wong Kwok Fong (王國芳) (the “Lessor”) for a term of 3 years commencing from [●] at an annual rent of RMB1,044,000, exclusive of management fees, water and electricity charges.
2. Heshan World Fair Electronics Technology Ltd. is a 100% interest owned subsidiary of the Company.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
  - a. The Lessor is a connected party to the Company;
  - b. The Lessor has obtained legal and valid Real Estate Title Certificates in respect of the property or has legally purchased the property and has the rights to lease the property in accordance with the PRC laws, the lease in respect of the property is legal and valid;
  - c. The form and content of the Tenancy Agreement in respect of the property are consistent with the relevant PRC laws and regulations and are legal, valid and enforceable on the relevant parties. The Group’s rights to use the property in accordance with the Tenancy Agreement are confirmed and protected by the PRC laws; and
  - d. The Tenancy Agreement should be registered with the relevant local authorities by the Lessor, however, as the lessee, the Group will not be subject to any penalty arising from the Lessor’s failure to procure such absence of registration according to the local laws and the Tenancy Agreement will not be affected by such absence of registration.

**VALUATION CERTIFICATE**

**Property interest leased and occupied by the Group in Hong Kong with commencement date of the tenancy after the date of valuation**

<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>
Suites 2603 to 2604 26th Floor Tower 2, Nina Tower No. 8 Yeung Uk Road Tsuen Wan New Territories Hong Kong	<p>The property comprises 2 office units on the 26th floor of an 82-storey composite building (office and hotel) completed in about 2007.</p> <p>The property has a total lettable area of approximately 10,582 sq.ft. (983.10 sq.m.)</p> <p>Pursuant to a Tenancy Agreement entered into between World Wide Touch Technology (Holdings) Limited, Cybertouch-Tech Company Limited and Cyber Energy Limited, as Tenant and Ying Ho Company Limited, Cheong Ming Investment Company Limited, Dorfolk Investments Limited, Kwong Fook Investors &amp; Developers Limited, The World Realty Limited, On Lee Investment Company Limited, Yau Fook Hong Company Limited and Tsing Lung Investment Company Limited as Landlord, independent third parties, the property is leased by the Group for a term of 3 years commencing from 1 May 2010 and expiring on 30 April 2013. (see note 2 below for details).</p>	<p>The property is currently occupied by the Group for office purpose.</p>

*Notes:*

1. The registered owners of the property are Ying Ho Company Limited (671/1000), Cheong Ming Investment Company Limited (85/1000), Dorfolk Investments Limited (8/1000), Kwong Fook Investors & Developers Limited (9/1000), The World Realty Limited (30/1000), On Lee Investment Company Limited (1/1000), Yau Fook Hong Company Limited (181/1000) and Tsing Lung Investment Company Limited (15/1000) (Tenants in common) vide New Grant No. 6890 of Tsuen Wan Town Lot No. 353.
2. Pursuant to a Tenancy Agreement dated 12 April 2010, the property is leased for a term of 3 years commencing from 1 May 2010 and expiring on 30 April 2013 in favour of World Wide Touch Technology (Holdings) Limited, Cybertouch-Tech Company Limited and Cyber Energy Limited at a monthly rent of HKD148,148, exclusive of rates, management fees and air-conditioning charges with an option to renew for a further term of 2 years upon expiration.
3. World Wide Touch Technology (Holdings) Limited, Cybertouch-Tech Company Limited and Cyber Energy Limited are 100% interest owned subsidiaries of the Company.

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## **APPENDIX V                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 July 2009 under the Cayman Islands Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Islands Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were adopted conditionally on 31 May 2010. The following is a summary of certain provisions of the Articles:

#### **(a) Directors**

##### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Islands Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Islands Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Islands Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the

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Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Cayman Islands Companies Law to be exercised or done by our Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with our Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefore (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be



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as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and

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ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

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- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Cayman Islands Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(x) Register of Directors and Officers*

The Cayman Islands Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the



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Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

**(c) Alteration of capital**

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Islands Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Islands Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Cayman Islands Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Cayman Islands Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of

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not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)).

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **(g) Requirements for annual general meetings**

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

### **(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Cayman Islands Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to

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compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

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All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Islands Companies Law.

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The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for our Company to purchase its own shares**

Our Company is empowered by the Cayman Islands Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company**

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

**(m) Dividends and other methods of distribution**

Subject to the Cayman Islands Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors

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determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Islands Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

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No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

**(n) Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares,



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together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Islands Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such

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members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Islands Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Islands Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

Our Company is incorporated in the Cayman Islands subject to the Cayman Islands Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable

qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, our Company’s operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Cayman Islands Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Law provides that the share premium account may be applied by our company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Law); (d) writing-off the preliminary expenses of our company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of our company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Islands Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give

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financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of our company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of our company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Cayman Islands Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of our company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of our company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Cayman Islands Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Law permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

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**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of our company to challenge (a) an act which is ultra vires our company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of our company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of our company in issue, appoint an inspector to examine into the affairs of our company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that our company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of our company's affairs in the future, (b) an order requiring our company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of our company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of our company by other shareholders or by our company itself and, in the case of a purchase by our company itself, a reduction of our company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our company's memorandum and articles of association.

**(g) Management**

The Cayman Islands Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by our company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our company; and (iii) the assets and liabilities of our company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our company's affairs and to explain its transactions.

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**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 28 July 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Cayman Islands Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of our Company will have no general right under the Cayman Islands Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Islands Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names

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and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of our company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that our company is to be dissolved, or, our company does not commence business for a year from its incorporation (or suspends its business for a year), or, our company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of our company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, our company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of our company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for our company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of our company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge our company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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As soon as the affairs of our company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of our company has been disposed of, and thereupon call a general meeting of our company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by our company’s articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, our Company’s special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the section headed “Documents available for inspection” in Appendix VII in this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



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### **FURTHER INFORMATION ABOUT OUR COMPANY**

#### **Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 17 July 2009. Our Company has established a place of business in Hong Kong at Suites 2601-4, 26/F Tower 2, Nina Tower, 8 Yeung Uk Road, TWTL 353, Tsuen Wan, New Territories, Hong Kong and was registered in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 28 August 2009. Mr. Wong of Flat 27C, Block 5, Grand Pacific Views, Siu Lam, New Territories, Hong Kong was appointed as the agent of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

Since our Company was incorporated in the Cayman Islands, it is subject to Cayman Islands law and its constitution comprises the Memorandum of Association and the Articles of Association. A summary of certain relevant provisions of the Articles of Association and certain relevant aspects of the Cayman Islands company law is set out in Appendix V in this document.

#### **Changes in share capital of our Company**

Our Company was incorporated with an authorised capital of HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each. The following alterations in the share capital of our Company have taken place since the date of incorporation up to the date of this document:

- (a) On 17 July 2009, one Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber, and 7,497 Shares and 2,502 Shares were allotted and issued to Mr. Wong and Ms. Ching respectively on the same date.
- (b) On 17 July 2009, Codan Trust Company (Cayman) Limited transferred its one Share to Mr. Wong and upon such transfer, Mr. Wong and Ms. Ching became the shareholders of our Company holding 74.98% and 25.02% therein respectively.
- (c) On 27 November 2009, the authorised share capital of our Company was increased from HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each to HK\$350,000,000 by the creation of an addition of 3,496,200,000 Shares.
- (d) On 27 November 2009, pursuant to the Reorganisation, our Company allotted and issued 1,558,363,838, 541,605,050 and 52,521,112 Shares credited as fully paid to Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) respectively.
- (e) On 1 December 2009, Mr. Wong transferred 1,414,871,336 Shares and Ms. Ching transferred 512,907,491 Shares into The KW Trust.

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Save for the aforementioned and as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

### **Written resolutions of our Shareholders passed on 31 May 2010**

On 31 May 2010, resolutions were passed by our Shareholders pursuant to which, among other things:

- (a) our Company approved and adopted, conditional [●], the Articles of Association;
- (b) conditional upon [●]:
  - (i) [●]
  - (ii) [●]
  - (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares issued pursuant thereunder and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;

[●]

[●]

### **The Reorganisation**

The companies comprising our Group underwent the Reorganisation to rationalise our corporate structure and as a result of which our Company became the holding company of our Group.

The Reorganisation involved the following steps:

- (a) On 17 July 2009, our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each;
- (b) Success Charm, Charming Lion, Cherry Light, Ever Firm and Silkray were established in May 2009 and World Design was established in November 2009 as investment holding companies.
- (c) On 9 July 2009, Shining Union was established to centralise the management and holding of all our patents, trademarks, designs and domain names.
- (d) Up Castle was established on 9 July 2009 to centralise the management and operation of our R&D capabilities.
- (e) On 9 November 2009, World Fair Hong Kong acquired 0.01% of the total issued share capital in Cybertouch from Mr. Wong for a consideration of HK\$1.00. After the acquisition, Cybertouch was wholly-owned by World Fair Hong Kong.

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- (f) On 13 November 2009, Ever Firm acquired 100% of the total issued share capital in Cybertouch from World Fair Hong Kong for a consideration of HK\$10,000. After the acquisition, Cybertouch was wholly-owned by Ever Firm.
- (g) On 27 November 2009, Charming Lion acquired a total of 97.17% of the total issued share capital in World Fair Hong Kong from World Fair Tech and Mr. Wong by the allotment and issue of 20,305,275 and 6,682,967 shares in the share capital of Success Charm, credited as fully paid, to Mr. Wong and Ms. Ching respectively.
- (h) On 27 November 2009, Charming Lion acquired a total of 2.83% of the total issued share capital in World Fair Hong Kong from the Awarded Employees by the allotment and issue of, in aggregate, 786,012 shares in the share capital of Success Charm, credited as fully paid, to the Awarded Employees. After the acquisition, Charming Lion became the sole shareholder holding the entire issued share capital of World Fair Hong Kong.
- (i) On 27 November 2009, our Company acquired 100% of the total issued share capital in Success Charm from Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) by the allotment and issue of 1,558,363,838, 541,605,050 and 52,521,112 Shares, credited as fully paid, to Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching), respectively by our Company. After the allotment, Success Charm was wholly-owned by our Company and our Company was owned by Mr. Wong as to approximately 72.4%, by Ms. Ching as to approximately 25.16% and by the Awarded Employees (excluding Ms. Ching), as to approximately 2.44%.
- (j) On 1 December 2009, Mr. Wong transferred 1,414,871,336 Shares and Ms. Ching transferred 512,907,491 Shares into The KW Trust.
- (k) On 18 December 2009, Cyber Energy was established to centralise the management and operation of our plasma lighting business.
- (l) On 28 November 2009, World Fair Hong Kong entered into a deed of assignment of trademarks and trademark applications with Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (m) On 28 November 2009, Cybertouch entered into a deed of assignment of trademarks and trademark applications with Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from Cybertouch to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (n) On 28 November 2009, Mr. Wong entered into a deed of assignment of patents and patent applications with Shining Union with respect to the transfer of the patents and patent applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per patent or patent application;
- (o) On 28 November 2009, Mr. Wong entered into a deed of assignment of designs and design applications with Shining Union with respect to the transfer of the designs and design applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per design or design application;

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- (p) On 28 November 2009, World Fair Hong Kong entered into a deed of assignment of domain names with Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per domain name; and
- (q) On 28 November 2009, World Fair Hong Kong entered into a deed of assignment of domain names with Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Heshan to Shining Union at a consideration of HK\$100 per domain name.

**Changes in the share capital or the registered capital of our subsidiaries**

Our subsidiaries are contained in the Accountant’s Report set out in Appendix I in this document.

The following alterations in the share capital or the registered capital of our subsidiaries took place within the two years immediately preceding the date of this document:

**(a) World Fair Heshan**

World Fair Heshan was incorporated as a wholly foreign-owned enterprise by World Fair Hong Kong on 18 November 2004 in Jiangmen, the PRC, with a registered capital of US\$2,000,000. On 27 May 2008, the registered capital of World Fair Heshan was increased from US\$25,250,000 to US\$37,250,000. On 9 July 2009, the registered capital of World Fair Heshan was increased from US\$37,250,000 to US\$57,250,000 of which US\$36,901,805.40 have been paid by 30 September 2009, and the remaining amount of US\$20,348,194.60 shall be paid in full on or before 8 July 2011.

**(b) Success Charm**

Success Charm was incorporated in the BVI on 11 May 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 9 November 2009, the authorised capital of Success Charm was increased to US\$29,700,000 for the purpose of the Reorganisation. On 27 November 2009, Charming Lion acquired a total of 97.17% of the total issued share capital in World Fair Hong Kong from World Fair Tech and Mr. Wong by the allotment and issue of 20,305,275 and 6,682,967 shares in the share capital of Success Charm, credited as fully paid, to Mr. Wong and Ms. Ching respectively. On 27 November 2009, Charming Lion acquired the remaining 2.83% of the total issued share capital in World Fair Hong Kong from the Awarded Employees by the allotment and issue of, in aggregate, 786,012 shares in the share capital of Success Charm, credited as fully paid, to the Awarded Employees. On 27 November 2009, our Company acquired 100% of the total issued share capital in Success Charm from Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) by the allotment and issue of 1,558,363,838, 541,605,050 and 52,521,112 Shares respectively, credited as fully paid, by our Company. After the allotment, Success Charm was wholly-owned by our Company.

**(c) Charming Lion**

Charming Lion was incorporated in the BVI on 6 May 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

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**(d) Cherry Light**

Cherry Light was incorporated in the BVI on 11 May 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

**(e) Ever Firm**

Ever Firm was incorporated in the BVI on 6 May 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

**(f) Silkray**

Silkray was incorporated in the BVI on 11 May 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

**(g) Up Castle**

Up Castle was incorporated in Hong Kong on 9 July 2009 with limited liability with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

**(h) Shining Union**

Shining Union was incorporated in Hong Kong on 9 July 2009 with limited liability with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

**(i) World Design**

World Design was incorporated in the BVI on 4 November 2009 with limited liability with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.

**(j) Cyber Energy**

Cyber Energy was incorporated in Hong Kong on 18 December 2009 with limited liability with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

Save as disclosed in this paragraph, there has been no alteration in the share capital or the registered capital of our subsidiaries within the two years immediately preceding the date of this document.

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### **Particulars of our PRC subsidiary**

We have interests in one PRC subsidiary. A summary of the corporate information of such company is set out as follows:

#### **(a) World Fair Heshan**

<b>Date of Establishment:</b>	18 November 2004
<b>Place of Establishment:</b>	Jiangmen, the PRC
<b>Nature:</b>	Wholly foreign-owned enterprise
<b>Scope of Business:</b>	manufacture of digital audio equipment, digital projection equipment, automatic data processors, digital cameras, precise online measurement equipment, new printing devices, high-end routers, telephones, network switches, broadband access communication system equipment, light source components, plasma light source products, new electronic components, PCBs, data transmission equipment, satellite receiver apparatus security equipment, green batteries, battery chargers and other components. (生產經營數字放聲、放像設備、自動數據處理器、數字照相機、精密在綫測量儀器、新型打印裝置、高端路由器、電話機、網絡交換器、寬帶接入網通訊系統設備、光源器件、等離子照明應用產品、新型電子元器件、綫路板組件、數據通信設備、衛星導航定位接收設備、防盜設備、綠色電池、充電器及其零配件)
<b>Legal Representative:</b>	Mr. Wong
<b>Registered Capital:</b>	US\$57,250,000
<b>Shareholders:</b>	World Fair Hong Kong
<b>Duration of Operation:</b>	18 years (from 18 November 2004 to 17 November 2022)

### **FURTHER INFORMATION ABOUT OUR BUSINESS**

#### **Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) an agreement in relation to the sale and purchase of 0.01% of the total issued share capital in Cybertouch dated 9 November 2009 and entered into between World Fair Hong Kong as the purchaser and Mr. Wong as the vendor, pursuant to which Mr. Wong transferred 0.01% of the total issued share capital in Cybertouch to World Fair Hong Kong for a consideration of HK\$1.00;

- (b) an agreement in relation to the sale and purchase of 100% of the total issued share capital in Cybertouch dated 13 November 2009 and entered into between World Fair Hong Kong as the vendor and Ever Firm as the purchaser, pursuant to which World Fair Hong Kong transferred 100% of the total issued share capital in Cybertouch to Ever Firm for a consideration of HK\$10,000;
- (c) a deed in relation to the sale and purchase of 97.17% of the total issued share capital in World Fair Hong Kong dated 27 November 2009 and entered into between Mr. Wong, World Fair Tech, Charming Lion and Success Charm, pursuant to which Mr. Wong and World Fair Tech transferred to Charming Lion a total of 97.17% of the total issued share capital in World Fair Hong Kong in consideration of the allotment and issue of 20,305,275 and 6,682,967 shares in the share capital of Success Charm, credited as fully paid, to Mr. Wong and Ms. Ching respectively;
- (d) a deed in relation to the sale and purchase of 2.83% of the total issued share capital in World Fair Hong Kong dated 27 November 2009 and entered into between the Awarded Employees, Charming Lion and Success Charm, pursuant to which the Awarded Employees transferred to Charming Lion a total of 2.83% of the total issued share capital in World Fair Hong Kong in consideration of the allotment and issue of, in aggregate, 786,012 shares in the share capital of Success Charm, credited as fully paid, to the Awarded Employees;
- (e) an agreement in relation to the sale and purchase of 100% of the total issued share capital in Success Charm dated 27 November 2009 and entered into between Mr. Wong and the Awarded Employees as the vendors, and our Company as the purchaser pursuant to which Mr. Wong and the Awarded Employees transferred to our Company a total of 100% of the total issued share capital in Success Charm in consideration for the allotment and issue of 1,558,363,838, 541,605,050 and 52,521,112 Shares to Mr. Wong, Ms. Ching and the Awarded Employees (excluding Ms. Ching) respectively, credited as fully paid, by our Company;
- (f) a deed of assignment of trademarks and trademark applications dated 28 November 2009 and entered into between World Fair Hong Kong and Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (g) a deed of assignment of trademarks and trademark applications dated 28 November 2009 and entered into between Cybertouch and Shining Union with respect to the transfer of the trademarks and trademark applications as set out in the schedule to the deed from Cybertouch to Shining Union at a consideration of HK\$100 per trademark or trademark application;
- (h) a deed of assignment of patents and patent applications dated 28 November 2009 and entered into between Mr. Wong and Shining Union with respect to the transfer of the patents and patent applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per patent or patent application;
- (i) a deed of assignment of designs and design applications dated 28 November 2009 and entered into between Mr. Wong and Shining Union with respect to the transfer of the designs and design applications as set out in the schedule to the deed from Mr. Wong to Shining Union at a consideration of HK\$100 per design or design application;



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- (j) a deed of assignment of domain names dated 28 November 2009 and entered into between World Fair Hong Kong and Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Hong Kong to Shining Union at a consideration of HK\$100 per domain name;
- (k) a deed of assignment of domain names dated 28 November 2009 and entered into between World Fair Heshan and Shining Union with respect to the transfer of the domain names as set out in the schedule to the deed from World Fair Heshan to Shining Union at a consideration of HK\$100 per domain name;
- (l) a deed of non-competition dated 31 May 2010 and entered into by Mr. Wong, Ms. Ching, Soar Plan, Swan Hills and the Trustee in favour of our Company, details of which are set out in the section headed “Relationship with Controlling Shareholders – Non-Competition Undertaking” in this document;
- (m) a deed of indemnity dated 31 May 2010 given by two of our Controlling Shareholders, Mr. Wong and Ms. Ching (“Indemnifiers”) in favour of our Company (for itself and as trustee for its subsidiaries) under which the Indemnifiers have given certain indemnities in favour of our Group containing, among other things, the indemnities referred to in the sections headed “Statutory and General Information – Other Information – Estate Duty and Tax Indemnity” and “Statutory and General Information – Other Information – Other Indemnities” in this Appendix VI; and

**Intellectual property rights of our Group**


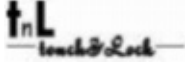











**Trademarks**

As at the Latest Practicable Date, we had registered the following trademarks:

Place of Registration	Trademark	Class	Registration Number	Registered Owner	Registration Date	Expiry Date
Hong Kong		9	301216133	Shining Union <sup>1</sup>	8 October 2008	7 October 2018
Hong Kong		35, 42	301248327	Shining Union <sup>1</sup>	28 November 2008	27 November 2018
Hong Kong	SecuButton	9	301254816	Shining Union <sup>2</sup>	10 December 2008	9 December 2018
Hong Kong	SecuUndo	9	301254889	Shining Union <sup>2</sup>	10 December 2008	9 December 2018
Hong Kong	C-touchsoft	9	301257192	Shining Union <sup>1</sup>	15 December 2008	14 December 2018
Hong Kong	eCardFlex	9	301257200	Shining Union <sup>1</sup>	15 December 2008	14 December 2018
Hong Kong	GyrateMotion	9	301257228	Shining Union <sup>2</sup>	15 December 2008	14 December 2018
Hong Kong	LinearisMotion	9	301257237	Shining Union <sup>2</sup>	15 December 2008	14 December 2018
Hong Kong	SpinMotion	9	301257246	Shining Union <sup>2</sup>	15 December 2008	14 December 2018

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Place of Registration	Trademark	Class	Registration Number	Registered Owner	Registration Date	Expiry Date
Germany		35, 42	30 2008 077 552	Shining Union <sup>1</sup>	9 March 2009	31 December 2018
Hong Kong		9	301330136	Shining Union <sup>2</sup>	23 April 2009	22 April 2019
Hong Kong	SecuMemory	9	301330145	Shining Union <sup>2</sup>	23 April 2009	22 April 2019
Hong Kong	DuoSecu	9	301337689	Shining Union <sup>2</sup>	6 May 2009	5 May 2019
Hong Kong		9	301358857	Shining Union <sup>2</sup>	8 June 2009	7 June 2019
Hong Kong		9	301358866	Shining Union <sup>2</sup>	8 June 2009	7 June 2019
Hong Kong		9	301368612	Shining Union <sup>1</sup>	22 June 2009	21 June 2019
Hong Kong		9	301380799	Shining Union <sup>2</sup>	9 July 2009	8 July 2019
Hong Kong	SecuFile	9	301380816	Shining Union <sup>2</sup>	9 July 2009	8 July 2019
Hong Kong		35,42	301394938	Shining Union	30 July 2009	29 July 2019
Hong Kong		35,42	301417293	Shining Union	1 September 2009	31 August 2019
Hong Kong	SecuKeyboard	9	301422396	Shining Union	8 September 2009	7 September 2019
Hong Kong	SecuDisk	9	301422404	Shining Union	8 September 2009	7 September 2019
Hong Kong		9,11	301434708	Shining Union	22 September 2009	21 September 2019
Hong Kong		9	301445012	Shining Union	8 October 2009	7 October 2019
Hong Kong		9,11	301464840	Shining Union	3 November 2009	2 November 2019
Hong Kong		9	301366092	Shining Union <sup>1</sup>	17 June 2009	16 June 2019
Hong Kong		42	301257219	Shining Union <sup>1</sup>	15 December 2008	14 December 2018
USA	CLEARBUTTON	9	3687381	Shining Union <sup>1</sup>	22 September 2009	21 September 2019

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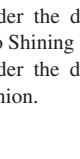
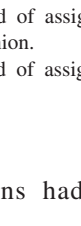
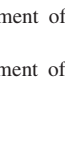



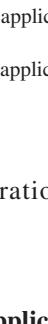
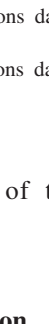

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Place of Registration	Trademark	Registration Class Number	Registered Owner	Registration Date	Expiry Date	
USA		9	3710373	Shining Union <sup>1</sup>	10 November 2009	9 November 2019
USA		9	3761813	Shining Union <sup>2</sup>	16 March 2010	15 March 2020
USA		35, 42	3762262	Shining Union <sup>1</sup>	23 March 2010	22 March 2020

*Notes:*









- 1 The respective trademark has been assigned under the deed of assignment of trademarks and trademark applications dated 28 November 2009 from World Fair Hong Kong to Shining Union.
- 2 The respective trademark has been assigned under the deed of assignment of trademarks and trademark applications dated 28 November 2009 from Cybertouch to Shining Union.

As at the Latest Practicable Date, applications had been made for the registration of the following trademarks:

Place of Registration	Trademarks	Class	Applicant	Application Number	Application Date
USA		9	Shining Union <sup>1</sup>	77589919	9 October 2008
PRC		9	Shining Union <sup>1</sup>	7466368	12 June 2009
USA		9	Shining Union <sup>1</sup>	77810787	23 August 2009
Hong Kong		9	Shining Union <sup>1</sup>	301241946	18 November 2008
PRC		9	Shining Union <sup>1</sup>	7583667	30 July 2009
Taiwan		9	Shining Union	98040071	11 September 2009
EU		9	Shining Union	008730871	3 December 2009
Japan		9	Shining Union	91617/2009	3 December 2009
PRC		35	Shining Union <sup>1</sup>	7121655	19 December 2008











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Place of Registration	Trademarks	Class	Applicant	Application Number	Application Date
PRC		42	Shining Union <sup>1</sup>	7121654	19 December 2008
USA		42	Shining Union <sup>1</sup>	77647271	11 January 2009
Hong Kong		35	Shining Union	301447218	12 October 2009
PRC		35	Shining Union	7798373	30 October 2009
PRC		42	Shining Union	7798390	30 October 2009
USA	C-touchsoft	9	Shining Union <sup>1</sup>	77646021	8 January 2009
PRC	C-touchsoft	9	Shining Union <sup>1</sup>	7583680	30 July 2009
USA		9	Shining Union <sup>1</sup>	77789824	27 July 2009
USA	GyrateMotion	9	Shining Union <sup>2</sup>	77647255	11 January 2009
USA	LinearisMotion	9	Shining Union <sup>2</sup>	77647257	11 January 2009
PRC	SpinMotion	9	Shining Union	7794487	29 October 2009
USA	SecuButton	9	Shining Union <sup>2</sup>	77647248	11 January 2009
PRC	SecuButton	9	Shining Union <sup>2</sup>	7583714	30 July 2009
USA	SecuUndo	9	Shining Union <sup>2</sup>	77647250	11 January 2009
PRC	SecuUndo	9	Shining Union <sup>2</sup>	7583717	30 July 2009
USA	SecuMemory	9	Shining Union <sup>2</sup>	77732151	7 May 2009
PRC	SecuMemory	9	Shining Union	7794474	29 October 2009
USA	DuoSecu	9	Shining Union <sup>2</sup>	77732157	8 May 2009
USA		9	Shining Union <sup>2</sup>	77733357	10 May 2009
USA		9	Shining Union <sup>2</sup>	77759041	13 June 2009

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Place of Registration	Trademarks	Class	Applicant	Application Number	Application Date
USA		9	Shining Union <sup>2</sup>	77789827	27 July 2009
USA		9	Shining Union <sup>2</sup>	77810771	23 August 2009
Hong Kong	QuickCrypt	9	Shining Union <sup>2</sup>	301380807	9 July 2009
USA	QuickCrypt	9	Shining Union <sup>2</sup>	77789825	27 July 2009
PRC	QuickCrypt	9	Shining Union <sup>2</sup>	7583723	30 July 2009
USA	SecuFile	9	Shining Union <sup>2</sup>	77789826	27 July 2009
PRC	SecuFile	9	Shining Union <sup>2</sup>	7583724	30 July 2009
USA		9,11,35,42	Shining Union	77833686	24 September 2009
PRC		9	Shining Union	7745210	9 October 2009
PRC		11	Shining Union	7745115	9 October 2009
PRC		35	Shining Union	7745148	9 October 2009
PRC		42	Shining Union	7745179	9 October 2009
USA	SecuKeyboard	9	Shining Union	77826637	15 September 2009
USA	SecuDisk	9	Shining Union	77826663	15 September 2009
PRC	eCardFlex	9	Shining Union	7794516	29 October 2009
USA		9,11	Shining Union	77871801	13 November 2009
PRC		9	Shining Union	7814228	6 November 2009
PRC		11	Shining Union	7814229	6 November 2009

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Place of Registration	Trademarks	Class	Applicant	Application Number	Application Date
Hong Kong	<b>RealDrive</b>	9	Shining Union	301502658	18 December 2009
USA	<b>RealDrive</b>	9	Shining Union	77901223	28 December 2009
PRC	<b>RealDrive</b>	9	Shining Union	7942566	24 December 2009
Hong Kong	<b>CyberSecu</b>	9	Shining Union	301502649	18 December 2009
USA	<b>CyberSecu</b>	9	Shining Union	77901222	28 December 2009
PRC	<b>CyberSecu</b>	9	Shining Union	7942608	24 December 2009
PRC		11	Shining Union	7934700	22 December 2009
PRC		11	Shining Union	7960652	31 December 2009
PRC	<b>SecuDisk</b>	9	Shining Union	8140231	22 March 2010

Notes:

- 1 The respective trademark (currently under an application for registration) has been assigned under the deed of assignment of trademarks and trademark applications dated 28 November 2009 from World Fair Hong Kong to Shining Union.
- 2 The respective trademark (currently under an application for registration) has been assigned under the deed of assignment of trademarks and trademark applications dated 28 November 2009 from Cybertouch to Shining Union.

Patents

As at the Latest Practicable Date, we had registered the following patents:

Patent	Place of Registration	Registered owner	Patent Number	Registration Date	Expiry Date	Renewal Date
A USB fingerprint device with LED indicators (一種具有LED指示器的USB指紋裝置)	Hong Kong	Shining Union <sup>1</sup>	HK1119371	10 October 2008	9 October 2016	10 October 2012
A storage device with RF fingerprint scanning system (一種具有射頻指紋掃描系統的存儲裝置)	Hong Kong	Shining Union <sup>1</sup>	HK1125258	10 October 2008	9 October 2016	10 October 2012
A financial transaction card (一種金融交易卡)	Hong Kong	Shining Union <sup>1</sup>	HK1127482	9 December 2008	8 December 2016	9 December 2012
A combined device of capacitive touch button and biometric fingerprint sensor (一種電容式觸摸按鈕和生物識別指紋傳感器的聯合應用裝置)	Hong Kong	Shining Union <sup>1</sup>	HK1127701	24 December 2008	23 December 2016	24 December 2012

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Patent	Place of Registration	Registered owner	Patent Number	Registration Date	Expiry Date	Renewal Date
A fingerprint scanning device (一種指紋掃描裝置)	Hong Kong	Shining Union <sup>1</sup>	HK1127483	23 January 2009	22 January 2017	23 January 2013
Microelectronic lock device (微電子鎖裝置)	Hong Kong	Shining Union <sup>1</sup>	HK1124479	19 March 2009	18 March 2017	19 March 2013
Encryption mobile storage device (加密移動存儲裝置)	Hong Kong	Shining Union	HK1130997	29 September 2009	28 September 2017	29 September 2013

*Note:*

<sup>1</sup> The respective patent has been assigned under the deed of assignment of patents and patent applications dated 28 November 2009 from Mr. Wong to Shining Union.

As at the Latest Practicable Date, we had made applications for the registration of the following patents:

Patents	Territory	Applicant	Application Number	Application Date
A financial transaction card (一種金融交易卡)	Hong Kong	Shining Union <sup>1</sup>	08111981.0	30 October 2008
USB fingerprint scanner with LED indicators	USA	Shining Union <sup>1</sup>	12/399,995	9 March 2009
Data storage device with radio frequency fingerprint scanner	USA	Shining Union <sup>1</sup>	12/399,997	9 March 2009
USB fingerprint scanner with touch sensor	USA	Shining Union <sup>1</sup>	12/420,829	9 April 2009
A power controlling device (一種電力控制裝置)	Hong Kong	Shining Union <sup>1</sup>	09103586.5	17 April 2009
A USB fingerprint device with LED indicators (一種具有LED指示器的USB指紋裝置)	PRC	Shining Union <sup>1</sup>	200910137476.9	29 April 2009
Computer mouse	USA	Shining Union <sup>1</sup>	12/468,851	19 May 2009
Control panel for controlling information processing system	USA	Shining Union <sup>1</sup>	12/484,268	15 June 2009
Financial transaction card	USA	Shining Union <sup>1</sup>	12/486,766	18 June 2009
A password input device (一種密碼輸入裝置)	Hong Kong	Shining Union <sup>1</sup>	09105479.0	18 June 2009
A storage device with RF fingerprint scanning system (一種具有射頻指紋掃描器的數據存儲裝置)	PRC	Shining Union <sup>1</sup>	200910150044.1	26 June 2009
A relaxation system (一種壓力減緩系統)	Hong Kong	Shining Union <sup>1</sup>	09105795.7	26 June 2009

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<b>Patents</b>	<b>Territory</b>	<b>Applicant</b>	<b>Application Number</b>	<b>Application Date</b>
Serial bus fingerprint scanner with LED indicators	USA	Shining Union <sup>1</sup>	12/534,110	1 August 2009
Data-communication-port control device (數據通信端口控制裝置)	Hong Kong	Shining Union	09107516.1	14 August 2009
A serial bus fingerprint device (一種串行總線指紋掃描裝置)	Hong Kong	Shining Union	09107522.3	15 August 2009
A security control apparatus (一種安全控制裝置)	Hong Kong	Shining Union	09107521.4	15 August 2009
Control panel for controlling information processing system	USA	Shining Union <sup>1</sup>	12/563,178	21 September 2009
Relaxation system	USA	Shining Union <sup>1</sup>	12/582,244	20 October 2009
Microelectronic lock system	USA	Shining Union <sup>1</sup>	12/582,712	21 October 2009
Password input device	USA	Shining Union <sup>1</sup>	12/607,065	28 October 2009
A financial transaction card (一種金融交易卡)	PRC	Shining Union <sup>1</sup>	200910207170.6	29 October 2009
Computer mouse (計算機鼠標)	PRC	Shining Union <sup>1</sup>	200910209421.4	30 October 2009
USB Fingerprint Scanner with touch sensor	USA	Shining Union <sup>1</sup>	12/635,700	11 December 2009
Control panel for controlling information processing system (一種用於控制信息處理系統的控制面板及信息處理系統)	PRC	Shining Union <sup>1</sup>	200910252725.9	2 December 2009
Surface touch-sensitive keypad (曲面觸摸式鍵盤)	Hong Kong	Shining Union	09111885.6	17 December 2009
Wireless fingerprint card (無線指紋卡)	Hong Kong	Shining Union	10100047.1	5 January 2010
USB fingerprint scanner with touch sensor (帶有觸摸傳感器的USB指紋掃描儀)	PRC	Shining Union	201010001647.8	19 January 2010
USB fingerprint scanner with touch sensor	Europe	Shining Union	10151216.8	20 January 2010
Computer mouse	Europe	Shining Union	10151617.7	26 January 2010
Computer mouse	Taiwan	Shining Union	099103483	5 February 2010
A microwave heater (一種微波加熱器)	Hong Kong	Shining Union	10101429.7	8 February 2010
Microelectronic lock system (微電子鎖定系統)	PRC	Shining Union	201010120414.X	21 February 2010



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<b>Patents</b>	<b>Territory</b>	<b>Applicant</b>	<b>Application Number</b>	<b>Application Date</b>
Computer mouse (コンピュータマウス)	Japan	Shining Union	2010-44401	1 March 2010
Microelectronic Lock System	Europe	Shining Union	10155644.7	5 March 2010
Microelectronic lock system (微電子鎖定系統)	Taiwan	Shining Union	099106738	9 March 2010
A Plasma Light Fixture	Hong Kong	Shining Union	10102572.0	11 March 2010
Power control device	USA	Shining Union	12/759,380	13 April 2010
Computer mouse (計算機鼠標)	Hong Kong	Shining Union	10103760.0	19 April 2010

*Note:*

- 1 The respective patent (currently under an application for registration) has been assigned under the deed of assignment of patents and patent applications dated 28 November 2009 from Mr. Wong to Shining Union.

**Designs**

As at the Latest Practicable Date, we had registered the following designs:

<b>Design</b>	<b>Place of Registration</b>	<b>Registered Owner</b>	<b>Registration Number</b>	<b>Registration Date</b>	<b>First Renewal Date</b>
Keyboard FP1012 	Hong Kong	Shining Union <sup>1</sup>	0900562.0	7 April 2009	7 April 2014
Mouse 	Hong Kong	Shining Union <sup>1</sup>	0900854.9	26 May 2009	26 May 2014
Mouse 	European Union	Shining Union	1181002-001	23 November 2009	23 November 2014
Mouse 	Hong Kong	Shining Union <sup>1</sup>	0901091.1	10 July 2009	10 July 2014
Keyboard 	Hong Kong	Shining Union	0901388.1	26 August 2009	26 August 2014

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<b>Design</b>	<b>Place of Registration</b>	<b>Registered Owner</b>	<b>Registration Number</b>	<b>Registration Date</b>	<b>First Renewal Date</b>
SecuMemory FP1028 	Hong Kong	Shining Union	1000028.1	7 January 2010	7 January 2015
Aura SSL6001 	Hong Kong	Shining Union	1000027.9	7 January 2010	7 January 2015
Plasma Street Light 	Hong Kong	Shining Union	1000399.6	4 March 2010	3 March 2015
Keyboard 	USA	Shining Union <sup>2</sup>	D614,186S	20 April 2010	N/A <sup>3</sup>

*Note:*






- 1 The respective design has been assigned under the deed of assignment of designs and design applications dated 28 November 2009 from Mr. Wong to Shining Union.
- 2 The application of this design has been assigned under deed of assignment of designs and design applications dated 28 November 2009 from Mr. Wong to Shining Union.
- 3 The registration period of this design will be expired on 20 April 2024.

As at the Latest Practicable Date, we had made applications for the registration of the following designs:

<b>Design</b>	<b>Territory</b>	<b>Applicant</b>	<b>Application Number</b>	<b>Application Date</b>
Keyboard 	PRC	Shining Union <sup>1</sup>	200930009080.7	8 April 2009
Mouse 	PRC	Shining Union <sup>1</sup>	200930194867.5	9 July 2009
Mouse 	USA	Shining Union <sup>1</sup>	29/316,399	21 September 2009

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<b>Design</b>	<b>Territory</b>	<b>Applicant</b>	<b>Application Number</b>	<b>Application Date</b>
Mouse (FP1016) 	PRC	Shining Union <sup>1</sup>	200930196260.0	24 July 2009
Mouse 	USA	Shining Union <sup>1</sup>	29/316,397	21 September 2009
FP Mouse, Generation 3 	Japan	Shining Union	2009-028313	4 December 2009
Keyboard 	PRC	Shining Union	200930238111.6	29 September 2009
Keyboard 	USA	Shining Union	29/316,996	16 November 2009

*Note:*

<sup>1</sup> The respective design (currently under an application for registration) has been assigned under the deed of assignment of designs and design applications dated 28 November 2009 from Mr. Wong to Shining Union.

**Domain Names**

As at the Latest Practicable Date, we had registered the following domain names:

<b>Domain Name</b>	<b>Registrant</b>
c-touchsoft.com	Shining Union <sup>1</sup>
c-touchtech.com	Shining Union <sup>1</sup>
ctouch.com.hk	Shining Union <sup>1</sup>
ctouch.hk	Shining Union <sup>1</sup>
cyber-energy.cn	Shining Union
cyber-energy.com.cn	Shining Union

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<b>Domain Name</b>	<b>Registrant</b>
cyber-energy.com.hk	Shining Union
cyber-energy.hk	Shining Union
cyber-medics.hk	Shining Union
cyber-medics.com.hk	Shining Union
cybermedics.com.hk	Shining Union
cybermedics.hk	Shining Union
cybersecu.cn	Shining Union
cybersecu.com.cn	Shining Union
cybersecu.com.hk	Shining Union
cybersecu.hk	Shining Union
cybertouch-soft.com	Shining Union <sup>1</sup>
cybertouch-tech.com	Shining Union <sup>1</sup>
cybertouch-tech.com.hk	Shining Union <sup>1</sup>
digitouch.com.hk	Shining Union <sup>1</sup>
digitouch.hk	Shining Union <sup>1</sup>
ecardflex.com	Shining Union <sup>1</sup>
elifetouch.cn	Shining Union <sup>2</sup>
elifetouch.com	Shining Union <sup>1</sup>
elifetouch.com.cn	Shining Union <sup>2</sup>
i-manufacturing.com.cn	Shining Union <sup>1</sup>
i-manufacturing.net	Shining Union <sup>1</sup>
ok-pad.com.hk	Shining Union
ok-pad.hk	Shining Union
okpad.com.hk	Shining Union
okpad.hk	Shining Union
opad.com.hk	Shining Union
opad.hk	Shining Union
shiningunion.com.hk	Shining Union
shiningunion.hk	Shining Union
upcastle.com.hk	Shining Union
upcastle.hk	Shining Union
wdesigntech.cn	Shining Union
wdesigntech.com.cn	Shining Union
wdesigntech.com.hk	Shining Union
wdesigntech.hk	Shining Union

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<b>Domain Name</b>	<b>Registrant</b>
wfg.hk	Shining Union
worldfair-group.com.cn	Shining Union
worldfair-group.com.hk	Shining Union
worldfair-tech.com	Shining Union
wwtt.hk	Shining Union
wwth.com	Shining Union <sup>1</sup>
wwth.com.hk	Shining Union

*Notes:*

- 1 The respective domain name has been assigned under the deed of assignment of domain names dated 28 November 2009 from World Fair Hong Kong to Shining Union.
- 2 The respective domain name has been assigned under the deed of assignment of domain names dated 28 November 2009 from World Fair Heshan to Shining Union.

## **FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

### **Disclosure of Interests**

#### **Directors**

Immediately following the completion of [●], based on the information available on the Latest Practicable Date, the interests or short positions of our Directors and chief executives in our Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and [●] pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company [●] will be as follows:

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*Long and Short Positions in our Shares*

<b>Name of Director</b>	<b>Name of corporation</b>	<b>Capacity/Nature of interest</b>	<b>Total number of Shares</b>	<b>Approximate Percentage of Shareholding (%)</b>
Mr. Wong <i>(Note 1)</i>	Our Company	Settlor of The KW Trust/Long position	[●]	[●]
	Soar Plan	Interest in a controlled corporation/Long position	[●]	[●]
Ms. Ching <i>(Note 1)</i>	Our Company	Beneficiary of The KW Trust/Long position	[●]	[●]
	Our Company	Beneficial interest/Long position	[●]	[●]
	Soar Plan	Interest in a controlled corporation/Long position	[●]	[●]
Tan Hui Kiat <i>(Note 2)</i>	Our Company	Beneficial interest/Long position	[●]	[●]
Lam Ho Sang <i>(Note 2)</i>	Our Company	Beneficial interest/Long position	[●]	[●]

*Notes:*

- 1 The Shares are held by Soar Plan, the entire issued share capital of which is owned by Swan Hills which is in turn ultimately held by the Trustee (through two nominee companies) as the trustee of The KW Trust. Mr. Wong and Ms. Ching, being the settlor and beneficiary of The KW Trust respectively, are deemed to be interested in the Shares held by it pursuant to the SFO. Their respective interests duplicate the interests held by the Trustee, The KW Trust, Soar Plan and Swan Hills.
- 2 These Shares were granted under the Share Incentive Scheme.

Save as disclosed above, based on the information available on the Latest Practicable Date, immediately following [●] none of our Directors or chief executives of our Company has any interest or short position in our Shares, underlying Shares or debentures or any of its associated corporations which will have to be notified to our Company and [●] pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she will be taken or deemed to have under the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to [●].

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## **APPENDIX VI**

## **STATUTORY AND GENERAL INFORMATION**

### **Substantial Shareholders**

So far as our Directors are aware, immediately following the completion of [●], the following persons (other than our Directors and chief executives) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name of Shareholder</b>	<b>Capacity/Nature of Interest</b>	<b>Total number of Shares</b>	<b>Approximate Percentage of Shareholding (%)</b>
Soar Plan <i>(Note)</i>	Registered owner	[●]	[●]
Swan Hills <i>(Note)</i>	Interest in a controlled corporation	[●]	[●]
The KW Trust <i>(Note)</i>	Interest in a controlled corporation	[●]	[●]
Trustee <i>(Note)</i>	Trustee	[●]	[●]
Mr. Wong <i>(Note)</i>	Founder of The KW Trust	[●]	[●]
Ms. Ching <i>(Note)</i>	Beneficiary of The KW Trust	[●]	[●]
Ms. Ching	Registered owner	[●]	[●]

*Note* : The entire issued share capital of Soar Plan is held by Swan Hills which is in turn ultimately held by the Trustee (through two nominee companies) as the trustee of The KW Trust. The KW Trust is a discretionary trust established by Mr. Wong as settlor and the Trustee as trustee on 1 December 2009. The beneficiaries of The KW Trust include family members of Mr. Wong and Ms. Ching. Their respective interests duplicate the interests held by the Trustee, The KW Trust, Soar Plan and Swan Hills.

### **Interests of the substantial shareholders of any member of our Group (other than our Company)**

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of [●] be interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

### **FURTHER INFORMATION ABOUT OUR DIRECTORS**

#### **Particulars of service contracts**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing on [●] and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has been appointed for an initial fixed term of three years commencing on 28 November 2009.

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## **APPENDIX VI**

## **STATUTORY AND GENERAL INFORMATION**

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### **Directors’ remuneration during the Track Record Period**

For the financial years ended 31 December 2007, 2008 and 2009, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately HK\$2.4 million, HK\$4.6 million and HK\$9.2 million respectively. Details of our Directors’ remuneration are also set out in Note 29(a) to the Accountant’s Report in Appendix I in this document.

Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to our Directors for the year ending 31 December 2010 is estimated to be approximately HK\$9.5 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for the financial years ended 31 December 2007, 2008 and 2009 as an inducement to join or upon joining our Company or for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

### **Agency fees or commissions received**

Saved as disclosed in this document, none of our Directors, the promoter of our Company or the persons named under “Consent of experts” in this appendix had received any discounts, brokerage or other special terms, agency fee or commission from our Group in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

### **Related Party Transactions**

We entered into certain related party transactions within the two years immediately preceding the date of this document. Please refer to Note 37 to the Accountant’s Report in Appendix I in this document.

### **Disclaimers**

Save as set out in this document:

- (a) none of our Directors or any of the persons whose names are listed in the paragraph headed “Consents of experts” in this appendix are directly or indirectly interested in the promotion of our Company or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” in this appendix are materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;



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## **STATUTORY AND GENERAL INFORMATION**

- (c) none of our Directors have entered or have proposed to enter into any service contracts with us or any other member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (d) none of the persons whose names are listed in the section headed “Consents of experts” in this section below have any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of our Group or is an officer or servant or a partner or in the employment of an officer or servant of our Group; and
- (e) none of our Directors, their respective associates (as defined under the Listing Rules), or our Shareholders who are interested in more than 5% of the issued share capital of our Company have any interest in our Company’s five largest customers and five largest suppliers.

### **SHARE SCHEMES**

#### **Share Incentive Scheme**

In order to recognise the contributions of the Awarded Employees to our Group, World Fair Tech adopted the Share Incentive Scheme on 30 September 2008 pursuant to which World Fair Tech agreed to transfer a total of 2,830 shares in World Fair Hong Kong (the “Incentive Shares”), comprising 2.83% of the total issued share capital of World Fair Hong Kong, to the Awarded Employees for a consideration of HK\$1.00 from each of the Awarded Employees. We set out below the number of Incentive Shares awarded to each of the Awarded Employees (excluding Ms. Ching):

<b>Name of the Awarded Employees (excluding Ms. Ching)</b>	<b>Number of the Incentive Shares (% of the Total Issued Share Capital of World Fair Hong Kong)</b>	<b>Number and % of the Total Issued Share Capital of our Company immediately before the completion of [●]</b>
Cheung Chi Keung	[●]	[●]
Tan Hui Kiat*	[●]	[●]
Quek Siew Chye	[●]	[●]
Lee Wai Man	[●]	[●]
Lam Ho Sang*	[●]	[●]
Ching Ka Keung	[●]	[●]
Decena Joel Tongo	[●]	[●]
		[●]
[●]		

\* Executive Directors of our Company

Pursuant to the Share Incentive Scheme, World Fair Tech entered into respective agreements in relation to the Share Incentive Scheme with each of the Awarded Employees on 14 August 2009 (the

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“Share Incentive Scheme Agreements”) pursuant to which the respective Incentive Shares were transferred to the Awarded Employees on 28 August 2009 (the “Completion Date”) for a consideration of HK\$1.00 from each of the Awarded Employees.

The principal terms of the Share Incentive Scheme Agreements are set out as follows:

- (i) The transfer of the Incentive Shares to the each Awarded Employee is subject to, among others, the condition that the relevant Awarded Employee shall remain employed by World Fair Hong Kong as at the Completion Date.
- (ii) Upon and after the Completion Date, in the event that an Awarded Employee does not remain employed by World Fair Hong Kong for whatsoever reason, the Awarded Employee shall unconditionally transfer the respective Incentive Shares held by him/her to World Fair Tech at a consideration of HK\$1.00.
- (iii) The Incentive Shares are personal to the Awarded Employees, who shall not assign any of their respective interests, rights or duties under the Share Incentive Scheme Agreements without the prior written approval of World Fair Tech. In the event that any Awarded Employee proposes to transfer his/her respective Incentive Shares to any third party (whether or not having separate legal personality), World Fair Tech shall have a right of first refusal with respect to such transfer at a consideration of HK\$1.00.

### **Share Option Scheme**

#### **(a) Purpose**

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contributions to, and continuing efforts to promote the interests of, our Company and to enable to our Group to recruit and retain employees of high calibre.

#### **(b) Who may join**

Our Board may, at its discretion, offer eligible persons (being our full-time or part-time employees, executive and independent non-executive Directors of any member of our Group) (the “Eligible Persons”). The Board may in its absolute discretion make an offer of the grant of a right to subscribe for such number of Shares as our Board may determine at an exercise price determined in accordance with paragraph (f) below.

#### **(c) Maximum number of Shares**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of our Company, must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of [●], which is equivalent to [●] Shares. Options lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit. Subject to the issue of a

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circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:

- (i) refresh this limit at any time up to 10% of the Shares in issue as of the date of the approval of the limit as refreshed by our Shareholders in general meeting (options previously granted under any share option scheme of our Company (including those outstanding, cancelled or lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or
- (ii) grant options beyond the 10% limit to Eligible Persons specifically identified by our Board whereupon our Company shall send a circular to our Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, our Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of our Group if this will result in the 30% limit being exceeded.

### **(d) Maximum number of options to any one individual**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted and to be granted under the Share Option Scheme and any other share option scheme(s) of our Company (including exercised, cancelled and outstanding options) to each Eligible Person, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant.

Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting with such Eligible Persons and his associates abstaining from voting and other requirements prescribed under the Listing Rules from time to time.

### **(e) Grant of options to connected persons**

Any grant of options to a Director, chief executive of our Company or to a substantial shareholder or any of their respective associates is required to be approved by our independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options). Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares as quoted on the Stock Exchange at the date of such grant,

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such further grant of options will be subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting on a poll at which all connected persons of our Company shall abstain from voting in favour at such meeting and other requirements prescribed under the Listing Rules from time to time.

### **(f) Subscription price for the Shares**

The subscription price per Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as our Board shall determine, and shall be at least the highest of (i) the [●] price of the Shares as stated in the [●] on the date of grant of the option, which must be a business day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the [●] prices of the Shares as stated in the [●] for the five business days immediately preceding the date of offer to grant option; and (iii) the nominal value of a Share on the date of grant of the option. Upon acceptance of an offer of a grant of an option, an amount of HK\$1.0 is payable.

### **(g) Restrictions on the time of grant of options**

An offer to grant option may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of our Board meeting for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement.

### **(h) Rights are personal to grantee**

An option is personal to the grantee and shall not be assignable or transferable, and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

### **(i) Time of exercise of option**

There is no general requirement that an option must be held for any minimum period before it can be exercised but our Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option.

Upon acceptance, the date of grant of any particular option is deemed to be the date of our Board resolution approving the grant in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry giving notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be

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exercised will be determined by our Board at its absolute discretion, save that no option may be exercised more than ten years from the date of grant. No option may be granted more than ten years after the date of approval of the Share Option Scheme. Subject to earlier termination in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption of the Share Option Scheme by our Shareholders.

### **(j) Performance target**

Our Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Share Option Scheme and our Board currently has no intention to set any specific performance targets on the exercise of any options granted or to be granted under the Share Option Scheme.

### **(k) Rights on ceasing to be an Eligible Person**

In the event of the grantee ceasing to be an Eligible Person for any reason other than (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangement or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty; or (2) by death, the option may be exercised within one month after the date of such cessation, which date shall be (i) if he is an employee of any member of our Group, his last actual working day with such member of our Group whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of any member of our Group, the date on which the relationship constituting him an Eligible Person ceases.

### **(l) Rights on death**

In the event that the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee or, if appropriate, in the circumstances described in (n), (o), (p) and (q), an election made by his personal representatives within twelve months after the date of his death.

### **(m) Lapse of option on misconduct, bankruptcy or dismissal**

If a grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangement or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty, the right to exercise the option (to the extent not already exercised) shall terminate immediately.

### **(n) Rights on general offer by way of a take-over**

If a general offer by way of a take-over is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) and such offer becomes or is declared

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unconditional, the grantee (or his personal representatives) may by notice in writing to our Company within 21 days after such offer becoming or being declared unconditional exercise the option to its full extent or to the extent specified in such notice.

### **(o) Rights on general offer by way of a scheme of arrangement**

If a general offer by way of a scheme of arrangement is made to all our Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, the grantee (or his personal representatives) may thereafter (but before such time as shall be notified by our Company) by notice in writing to our Company exercise the option to its full extent or to the extent specified in such notice.

### **(p) Rights on a compromise or arrangement**

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it dispatches the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the grantee (or his personal representatives) to transfer or otherwise deal with our Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

### **(q) Rights on winding-up**

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

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**(r) Lapse of the options**

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the period the options may be exercised;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l) or (n);
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (iv) the date upon the compromise or arrangement becoming effective referred to in paragraph (p);
- (v) the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangement or composition with his creditors generally or on which he had been convicted of any criminal offence involving his integrity or honesty;
- (vi) subject to paragraph (q), the date of the commencement of the voluntary winding-up of our Company; or
- (vii) the date on which the grantee commits a breach of paragraph (m);
- (viii) the date on which the option is cancelled by our Board as provided in paragraph (v);
- (ix) the non-fulfillment of any condition referred to in paragraph (x) on or before the date specified therein.

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph (r).

**(s) Ranking of Shares**

Our Shares to be allotted upon the exercise of an option shall be subject to the Articles of Association for the time being in force and shall rank *pari passu* in all respects with fully paid Shares in issue as of the date of allotment and will entitle the holders to participate in all dividend or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the date of allotment.

**(t) Effect of alterations to share capital**

In the event of any alteration to the capital structure of our Company whilst any option remains exercisable, arising from capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company in accordance with legal requirements and requirements of the Stock Exchange other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party, adjustment (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the option so far as unexercised;
- (ii) the subscription price for the Shares subject to the option so far as unexercised;
- (iii) the Shares to which the option relates; and
- (iv) the method of exercise of the option,

or any combination thereof as the auditors or the independent financial adviser to our Company shall at the request of our Company certify in writing to our Board either generally or as regards any particular grantee that the adjustments are in compliance with Rule 17.03(13) of the Listing Rules and the notes thereto.

Any such adjustments must give a grantee the same proportion of the equity capital of our Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange but no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors or the independent financial adviser to our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees.

**(u) Alteration of Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of our Board except that the provisions of the Share Option Scheme as to:

- (i) the definition of “Eligible Person” and “grantee” in the Share Option Scheme; and
- (ii) the provisions relating to the matters set out in Rule 17.03 of the Listing Rules,

shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of our Shareholders in general meeting (with participants and their respective associates abstaining from voting). No such alterations shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantees as would be required of our Shareholders under the Articles of Association for a variation of the rights attached to the Shares.



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Any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

Any alteration to the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing provisions of the Share Option Scheme.

### **(v) Cancellation of options granted**

Our Board may cancel an option granted but not exercised with the approval of the grantee of such option.

No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the limits set out in paragraph (c) above from time to time.

### **(w) Termination of the Share Option Scheme**

Our Company, by resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

### **(x) Conditions of the Share Option Scheme**

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolution to adopt the Share Option Scheme by our Shareholders;
- (ii) [●]
- (iii) [●]
- (iv) [●]

### **(y) Disclosure in annual and interim reports**

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with [●].

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### **(z) Present status of the Share Option Scheme**

As of the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

### **OTHER INFORMATION**

#### **Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, the PRC and other jurisdictions in which the companies comprising our Group are incorporated.

#### **Estate Duty and Tax Indemnity**

Each of Mr. Wong and Ms. Ching (together the “Indemnifiers”) has entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries). Each of the Indemnifiers has given joint and several indemnities in respect of, among other things, (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by virtue of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong (as amended by the Revenue (Abolition of Estate Duty) Ordinance 2005) or any other similar legislation in Hong Kong or any part of the world) to any member of our Group on or before [●], and (b) any tax liability which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before [●] (including but not limited to any tax liability arising from any additional assessment by any tax authority in respect of any member of our Group in relation to the tax years beginning 1 April 2003 and ending on [●]), save as such circumstances including:

- (a) to the extent that full provision or allowance has been made for such taxation in the audited accounts of our Group for the years ended 31 December 2007, 2008 and 2009, as set out in Appendix I in this document;
- (b) subject to (a) above to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after [●];
- (c) to the extent that the liability for such taxation is caused by the act of omission of, or transaction voluntarily effected by, any member(s) of our Group which is/are carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2009 or carried out or entered into pursuant to a legally binding commitment on or before 31 December 2009; or
- (d) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2009 which is finally established to be an over-provision or an excessive reserve,

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provided that the exceptions in paragraphs (a)-(d) above shall not apply to any tax liability which might be payable by any member of the Group arising from any additional assessment by any tax authority for the tax years beginning 1 April 2003 and ending on the [●].

### **Other Indemnities**

Under the deed of indemnity referred to above, the Indemnifiers also jointly and severally agreed to indemnify us from and against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines of whatever nature which any member of our Group may incur, suffer or accrue, directly or indirectly, arising from, as a result of or in connection with:

- (a) any loss and/or penalty resulting from or in respect of any non-compliance with the applicable laws, rules and regulations by any member of our Group on or before the [●] including without limitation any non-compliance with the laws, rules and regulations in respect of any unpaid mandatory contributions to the medical insurance funds and the housing provident funds as referred to in the section headed “Directors, Senior Management and Employees – Staff Benefits” in this document;
- (b) any loss and/or penalty resulting from or in respect of the non-availability of the real estate ownership certificates from the relevant competent governmental authorities in the PRC in relation to, or the failure to obtain the relevant planning and construction permits prior to the commencement of construction of, the PRC properties as referred to under Group I of the property valuation report set out in Appendix IV in this document, including without limitation the staff quarters, back-up power room and staff cafe;
- (c) any loss and/or penalty resulting from or in respect of the non-availability of the land use rights certificates and real estate title certificates from the relevant competent governmental authorities in the PRC for the PRC leased properties as referred to under Group II of the property valuation report set out in Appendix IV in this document, and the breach of the tenancy agreements and deed of mutual covenants in relation to the Hong Kong leased properties as referred to under Group III of the property valuation report set out in Appendix IV to this document; and
- (d) any loss and/or penalty resulting from or in respect of the failure to obtain the requisite licenses, permits and approvals (including, without limitation, the construction land planning permit, construction work planning permit and construction work commencement permit) from the relevant competent governmental authorities in the PRC for the warehouse, extended production facilities, staff quarters and R&D centre under construction at the Group’s production base in Jiangmen, the PRC.

### **Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatening by or against any member of our Group.

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### **Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately US\$6,000 and are payable by our Group.

### **Promoter**

Our Company has no promoter [●].

### **Qualifications of experts**

The qualifications of the experts who have given opinion or advice which are contained in this document are as follows:

<b>Name</b>	<b>Qualifications</b>
Jingtian and Gongcheng	PRC legal counsel
PricewaterhouseCoopers	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Lee and Li, Attorneys-at-law	Taiwan legal counsel
Jones Lang LaSalle Sallmanns Limited	Professional property surveyors and valuers

### **Consents of experts**

Each of [●], Jingtian and Gongcheng, PricewaterhouseCoopers, Conyers Dill & Pearman, Lee and Li, Attorneys-at-law and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which it is respectively included.

### **Binding effect**

This document shall have the effect, if any application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A of 44B of the Companies Ordinance insofar as applicable.

### **Miscellaneous**

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

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- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for the consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
  - (v) no commission has been paid or is payable for subscription agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
  - (vi) our Group has no outstanding convertible debt securities or debentures.
- (b) No member of our Group is presently listed on any stock exchange or traded on any trading system.
- (c) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve months immediately preceding the date of this document.
- (e) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2009 (being the date to which the latest audited consolidated financial statements of our Group were made up).
- (f) There is no arrangement under which future dividends are waived or agreed to be waived.
- (g) As at the date of this document, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong.