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## SUMMARY

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### OVERVIEW

The Group is one of the market leaders in the high precision industrial automation instrument and technology products industry in China and operates under the Wide Plus brand. The Group is principally engaged in the research and development, manufacturing and sale of high precision industrial automation instrument and technology products, targeting the middle to high-end segments of the industrial automation instruments markets. The Group’s high precision industrial automation instrument and technology products can be used to detect, measure and analyse information (such as temperature, water pressure, or other variables) and are widely used in industrial production applications. During the financial year ended 30 June 2009, the Group’s sales of high precision industrial automation instruments accounted for approximately [74.6]% of its total sales.

The Group’s key high precision industrial automation instrument and technology products include:

- Detector (檢測儀錶) — an instrument that detects and assesses pressure, temperature, flow and liquid level by converting information received into data that can be transmitted and analysed;
- Indicator (顯示儀錶) — an instrument that indicates the status of a production processes either by a set of numbers or by other signals after receiving and analysing data transmitted to it; and
- Controller (控制調節儀錶) — an instrument, such as a valve, that can change the flow of gas or liquid, pressure and liquid levels upon input from a control system.

In addition to the Group’s high precision industrial automation instrument and technology products business, the Group is also engaged in the manufacturing of horological instrument products for use in the manufacture of quartz watches. During the financial year ended 30 June 2009, the Group’s sales of horological instruments accounted for approximately [25.4]% of its total sales.

The Group’s key horological instrument products include:

- Two-hand all plastic quartz watch movements — [a quartz watch movement that controls the hour and minute hands of the watch];
- Three-hand all plastic quartz watch movements — [a quartz watch movement that controls the hour, minute and second hands of the watch];
- Calendar all plastic quartz watch movements — [a quartz watch movement that controls the day and date displays of the watch].

The pressure transmitter sector, which forms part of the Group’s detector product category, of the high precision industrial automation instruments market and the quartz watch movements market in which the Group competes are both oligopoly markets as, by definition, an oligopoly is defined as a market in which a few competitors dominate, and quantitatively where the four largest firms have market shares of greater than 40%. The Group’s pressure transmitter and quartz watch

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movements are clear oligopolies as top 4 players have more than 40% market shares. It also has high entry barriers and suppliers have strong price setting powers characteristic of oligopoly markets.

The indicator and controller sector of the high precision industrial automation instruments market in which the Group competes may be considered as both an oligopoly and as a monopolistic competitive market as this sector shares characteristics of both markets. This sector has a larger number of leading competitors than normally seen in oligopoly markets, which is more typical of monopolistic competitive markets. Additionally, where monopolistic competitive markets tend to have no or low entry barriers, this sector retains the high entry barriers and supplier price setting powers characteristics of oligopoly markets.

<b>The PRC Instrument Industry Production Value in 2007</b>	<i>(RMB millions)</i>
Industrial automation instruments	78,384
Horological Instruments	20,911
Electronic chain instruments	12,571
Supply chain instruments	39,266
Optics instruments	51,905
Medical and related instruments	20,883
Vehicle and other measuring instruments	14,230
Others	<u>69,615</u>
<b>TOTAL</b>	<b><u><u>307,765</u></u></b>

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

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According to the PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, the Group was the leading indicator and controller manufacturer and the leading PRC-based pressure transmitter manufacturer in China in terms of the number of units sold in 2006. With the exception of limited involvements by some domestic enterprises, the middle to high-end segments of the PRC market with high stability, reliability and precision requirements is oligopolistic in nature and almost exclusively reliant on imports or products manufactured by foreign invested enterprises (三資企業) such as the Group, with a relatively limited number of international brands commanding dominant market positions.

### Market Share of Major Pressure Transmitter Manufacturers in 2006

	Market (units)	Enterprise Type
1. Emerson	145,000	Joint Venture
2. Yokogawa	120,000	Joint Venture
3. <b>The Group</b> <sup>(Note 1)</sup>	<b>45,000</b>	<b>Hong Kong</b>
4. Chongqing Wecan	38,000	China
5. E + H	30,000	Joint Venture
6. Others	<u>182,000</u>	
Total	<u><u>560,000</u></u>	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008.

Note 1: The above ranking is attributed to Wide Plus.

### Market Share of Major Indicator and Controller Manufacturers in 2006

	Market (’000 units/ sets)	Enterprise Type
1. <b>The Group</b> <sup>(Note 1)</sup>	<b>300</b>	<b>Hong Kong</b>
2. RKC	150	Japan
3. OMRON	120	Japan
4. Xiamen Yudian Automation Technology Co., Ltd	80	China
4. Fujian Shunchang Hongrun Precision Instrument Co., Ltd	80	China
4. Sichuan Instrument Complex Co., Ltd. Control Meter Branch	80	China
5. Autonics Electronic (Jiaying) Corporation	50	South Korea
6. Shimaden	30	Japan
6. Shanghai Dahua Chino Instrument Co., Ltd.	30	Joint Venture
7. Others	2,200–2,700	
Total	3,000–3,500	

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

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### End-users Product Selection Priorities

Selection Criteria	Priority
Stability	1
Failure rate	2
Ease of installation	3
After-sales services	4
Degree of Precision	5
Ease of use	6
Delivery time	7
Price	8

Source: The PRC Instrument Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008

The global quartz watch movements market is an oligopoly market dominated by Seiko and Citizen, and to a lesser extent, the Group and two other leading PRC manufacturers. According to the Report on the PRC Quartz Watch Movement Development and Industry Status Analysis (中國石英錶芯發展及產業現狀評析) dated July 2009, the Group is one of the three industry leaders amongst only [10] PRC quartz watch movement manufacturers and the only enterprise which is leading industry innovations in China with products that are of international quality standards. The Group sold approximately 95.8 million pieces of quartz watch movements in 2008, representing approximately 10.6% to 11.9% of total globally output and approximately [23.9]% of total output by the PRC manufacturers.

According to the National Standard of the Classifications and Codes of National Economy Industries (GB/T4754-2002) (《國民經濟行業分類》國家標準 (GB/T4754-2002)), industrial automation instruments and horological instruments and timers are both classified in the instruments industry (儀器儀錶行業). According to the PRC Instruments Industry Research and Development Report (中國儀器儀錶行業調研報告) dated March 2008, automation instruments and systems account for about half of the total instrument industry sales revenue.

The production of high precision industrial automation instrument and technology products is the principal business of the Group, from which it derived approximately 64.1%, [70.9]% and [74.6]% of its turnover during the Track Record Period.

High precision industrial automation instrument and technology products manufactured by the Group for the middle to high-end market segments have been applied in an extensive range of industries that utilise automated production processes, including aerospace, oil and gas, petrochemical, power generation, mining and metallurgy, iron and steel, automotive, food and beverage, pharmaceutical, papermaking and machinery industries.

The Group uses distributors to sell the Group's high precision industrial automation instrument and technology products across the PRC through a network of sub-distributors to end-users. Therefore, the Group does not have to bear directly a portion of the costs and personnel needed to warehouse, sell and deliver its products. Under the distributorship system, the Group's products can be marketed to a broader range of customers and the Group can economically serve with its own direct sales force.

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The distributors of the high precision industrial automation instrument and technology products for the Group are its only direct customers, and each distributor has entered into a distributorship agreement with the Group. The Group does not enter into any contractual relationship with any sub-distributors nor sell to any end-users directly.

To the best knowledge of the Directors, the distributors and sub-distributors of the high precision industrial automation instrument and technology products are Independent Third Parties.

The Group has business relationships ranging from 2 to [5] years with its distributors for high precision industrial automation instrument and technology products.

The following map shows the geographical distribution of the Group’s distributors and sub-distributors in China as at the [Latest Practicable Date]:



Sales region	Number of distributor	Number of sub-distributor
Anhui	—	1
Beijing	1	9
Chongqing	1	5
Fujian	1	14
Gansu	—	6
Guangdong	1	25
Guangxi	1	3
Hebei	—	13
Hubei	1	34
Heilongjiang	—	9
Henan	2 <i>Note(1)</i>	12
Hunan	—	6
Inner Mongolia	—	2
Jiangsu	1	16
Jiangxi	—	8
Jilin	1	9
Liaoning	—	17
Ningxia	—	1
Shaanxi	1	32
Shanxi	1	2
Shandong	—	26
Shanghai	1	39
Sichuan	1	11
Tianjin	1	6
Xinjiang	1	12
Yunnan	—	3
Zhejiang	—	12
<b>Total</b>	<b>16</b>	<b>333</b>

*Note (1):* There are 2 distributors in Henan province. One of them is responsible for the distribution of the high precision industrial automation instrument and technology products in Henan province and Shandong province of the PRC. The other distributor is responsible for distribution of the high precision industrial automation instrument and technology products in Henan province and Anhui province of the PRC. Both distributors have met the Group’s requirements to act as distributors of the Group and they have demonstrated that they have networks in provinces of Henan, Anhui and Shandong. According to the distributorship agreements entered into between each of the distributors in Henan province and the Group, in case of any dispute between the distributors in terms of their business concerned, the Group has the right to determine the scope of business of each of the distributors and the distributors are obliged to follow the decision of the Group, including the pricing policy laid down by the Group.

The Group places great emphasis on its research, design and development capabilities, as it is only through the innovation of technologically advanced products that the Group will be able to maintain its market position amongst the leading manufacturers of high precision industrial automation instrument and technology products.

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[As at the Latest Practicable Date], the research and development department of the Group has more than [90] staff of which [33] are experts, most of whom are equipped with undergraduate or higher education degrees in relevant fields ranging from mechanical engineering, instrument manufacturing, automatic controlling, microelectronic and information engineering, computer technology, radio equipment, materials and technique, machines, electric and machinery.

With the research and development assistance and support from various colleges and universities, four cooperative projects are in place, including cooperations with Fuzhou University (福州大學), Tianjin University (天津大學), South China University of Technology (華南理工大學) and Institute of Chief Manufacturing Engineering and Design of the Chinese People’s Liberation Army (中國人民解放軍總裝備工程設計研究總院).

Currently, the Group has 11 trademarks, 31 patents (including 10 design patents and 21 utility model patents) and 4 software copyrights registered in the PRC. As confirmed by the PRC legal advisers of the Group, according to relevant laws and regulations in the PRC, design patents are referred to the design of the shape and colour applied to an industrial product. The utility model patents are referred to the manufacturing method and structure and usage of the products concerned. All the design patents and utility model patents are internally developed by the Group.

According to Opinions of the State Council on Accelerating the Invigoration of Capital Goods and Equipment Industry (“State Council Opinions”) dated 13 February 2006 (國務院關於加快振興裝備製造業的若干意見), the strong invigoration of the capital goods and equipments industry is an important directive for the Chinese government. The capital goods and equipments industry, which industrial automation instruments is included, are deemed a pillar industry that is crucial towards the developments of the overall Chinese economy and national defense infrastructure.

The State Council Opinion also made the following recommendations:

1. Use major national projects as a foundation and basis for promoting the growth of domestic capital goods and equipment enterprises;
2. Strengthen policy supports and encourage governments at all levels to enhance supports for educational institutions and initiatives to help develop and foster the necessary talent pool and foster closer collaborations with enterprises;
3. Revise tax policies when appropriate, including import tax exemptions or rebates for key components and materials used by domestic enterprises for the production of capital goods and equipments and cancellation or gradual cancellation of tax exempt status for imported finished capital goods and equipments; and
4. Encourage procurements of domestically produced capital goods and equipments, using preferential procurement policies for domestically produced products in major national projects as showcase for domestic enterprises.

The Group’s horological instrument segment accounted for approximately 35.9%, [29.1]% and [25.4]% of its turnover during the Track Record Period and the Group had developed the WP1015, P68, P69, P79 and WP1013 horological instrument series. The use of all plastic parts and components in quartz watch movement allows the Group to mass produce parts and components such as die-cast wheel using automated manufacturing processes. This effectively ended the reliance on Japanese horological instruments imported by timepiece manufacturers in

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the PRC and led the way for the Group to sell its horological instruments in the international market. Quartz watch movement products manufactured by the Group are sold to both domestic and international timepiece manufacturers.

The Group uses distributors to sell its horological instrument products across the PRC through a network of distributors to customers. The Group does not have to bear the costs and personnel needed to warehouse, sell and deliver its products. Under the distributorship system, the Group’s products can be marketed to a broader range of customers and the Group can economically serve with its own direct sales force.

The Group has business relationships ranging from [2] to [5] years with its distributors for horological instruments.

During the Track Record Period, the Group also sold its quartz watch movements to potential distributors with whom the Group had no formal distributorship agreements. The Group conducts business with these potential distributors on a transaction-to-transaction basis. According to the Directors, the distributors and potential distributors are Independent Third Parties.

Set out below is the number of horological instruments distributors who have entered into formal distributorship agreements with the Group during the Track Record Period:

	<b>Year ended 30 June</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Number of distributors	4	[5]	[4]

The Directors believe that the growth of the Group can be attributable to:

- (i) market leadership;
- (ii) strong revenue growth and profitability over the Track Record Period;
- (iii) advanced technological know-how and use of mechatronic technology and high precision mechanical production;
- (iv) diversified product portfolio with wide application base across multiple industries;
- (v) experienced management and precision mechanical production teams;
- (vi) end-user base for its high precision industrial automation instrument and technology products consisting of well-known companies; and
- (vii) established sales and distribution network.

During 1990’s, the predecessors of the Group were primarily engaged in the manufacturing of quartz watch movements and related components and consumer horological instruments, as well as the research and development of industrial automation instruments including electronic display and control instruments and associated control system and software. Since early 2000’s, the predecessors of the Group focused on the production of industrial automation instruments and horological instruments. Leveraging on the Group’s experience and expertise in high precision

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mechanical production and integration of such technology with microelectrical technology, the Group began the large scale manufacturing of middle to high-end industrial automation instruments and technology products in 2004.

### SUMMARY FINANCIAL INFORMATION

The Group has achieved steady and stable growth in sales during the Track Record Period. For each of the years in the three financial years ended 30 June 2009, the Group recorded revenue of approximately RMB479.3 million, RMB600.9 million and RMB[620.0] million, respectively, representing a CAGR of approximately [13.73]%.

The following is a summary of the Group’s consolidated financial results for each of years in the three financial years ended 30 June 2009 extracted from the Accountants’ Report set out in Appendix I to this document. The results were prepared on the basis of the presentation as set out in the Accountants’ Report.

#### Consolidated Income Statement Data

	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Turnover</b>	479,251	600,904	[620,003]
Cost of sales	<u>(257,209)</u>	<u>(317,930)</u>	<u>[323,762]</u>
<b>Gross profit</b>	222,042	282,974	[296,241]
Other revenue	1,950	1,425	[1,436]
Other expenses	(5,780)	(9,702)	[—]
Other net (losses)/gain	(110)	(3,112)	[63]
Distribution costs	(3,075)	(3,972)	[[3,833]
Administrative expenses	<u>(12,778)</u>	<u>(25,681)</u>	<u>[(45,341)]</u>
<b>Profit from operations</b>	202,249	241,932	[248,566]
Finance costs	<u>(2,030)</u>	<u>(2,935)</u>	<u>[(5,775)]</u>
<b>Profit before taxation</b>	200,219	238,997	[242,791]
Income tax	<u>(15,574)</u>	<u>(26,925)</u>	<u>[(42,834)]</u>
<b>Profit for the year</b>	<u>184,645</u>	<u>212,072</u>	<u>[199,957]</u>
Dividend declared and paid during the year	<u>280,864</u>	<u>—</u>	<u>[230,326]</u>
Earnings per share (cents)			
— basic	24.62	28.28	[26.66]
— diluted	<u>24.62</u>	<u>[28.15]</u>	<u>[26.66]</u>



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The following table shows the breakdown of the Group’s turnover by product category for each of the three financial years ended 30 June 2009:

	Year ended 30 June					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
High precision industrial automation instrument and technology products	307,351	64.1	426,115	70.9	[462,425]	[74.6]
Horological instruments	<u>171,900</u>	<u>35.9</u>	<u>174,789</u>	<u>29.1</u>	<u>[157,578]</u>	<u>[25.4]</u>
<b>TOTAL</b>	<b><u>479,251</u></b>	<b><u>100</u></b>	<b><u>600,904</u></b>	<b><u>100</u></b>	<b><u>[620,003]</u></b>	<b><u>100</u></b>

The following table shows the breakdown of the Group’s turnover by geographical location for each of the three financial years ended 30 June 2009:

	Year ended 30 June		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (excluding Hong Kong)	415,712	519,657	557,493
Hong Kong	<u>63,639</u>	<u>81,247</u>	<u>62,510</u>
<b>TOTAL</b>	<b><u>479,351</u></b>	<b><u>600,904</u></b>	<b><u>620,003</u></b>

During the Track Record Period, the turnover from high precision industrial automation instrument and technology products was approximately RMB[462.4] million in 2009 compared to approximately RMB[307.4] million in 2007, the increase was mainly attributable to strong overall growth in the PRC instrument industry. The decrease in turnover from horological instruments was mainly attributable to fierce market competition resulting in declining average selling prices of horological instrument products.

High precision industrial automation instrument and technology products on average also enjoy higher profit margins compared to horological instrument products, the Group therefore increased resources and efforts towards the development of its high precision industrial automation instrument and technology products business segment.

### FUTURE PLAN AND STRATEGY

The Group plans to become a leading supplier of a comprehensive range of industrial automation products and horological instruments in the PRC. The Group plans to carry out the following strategies:

- Expand and enhance the Group’s product range to cover a wider variety of high quality, higher-margin products;
- Expansion of regional technical services centres and professional services centres;
- Continue to invest in research, design and development capabilities and strengthen the Group’s technological and manufacturing capabilities; and
- Pursue strategic acquisitions and investments where appropriate.

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### DIVIDEND POLICY

During the Track Record Period, the Group declared and paid dividends of approximately RMB280.9 million, RMB nil and RMB230.3 million, respectively. Such dividends were paid in cash and out of the distributable profits of the Company. The Directors consider that the dividend payments made during the Track Record Period are not indicative of future dividend policy of the Group.

The Company may distribute dividends by way of cash or by other means that it considers appropriate. A decision to distribute any dividend would require the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the Group's results of operations, financial condition, payments by its subsidiaries of cash dividends to the Company, future prospects and other factors that the Directors may consider important.

The Company did not declare or pay any dividend for the financial year ended 30 June 2008, and will declare and pay dividend in an amount of no less than [●]% of the Company's net profit for the year commencing on or after 1 July 2009.

### THE RECENT FINANCIAL CRISIS AND CREDIT CRUNCH

Starting from September 2008, various leading financial institutions in the U.S. have declared bankruptcy or sought emergency financial supports from the U.S. government and this led to a series of financial crisis, which were allegedly induced by high default rates on sub-prime mortgages relating to real estate beginning in 2005 and 2006. The sub-prime mortgages crisis, which involves the failure of mortgage companies, investment firms, banks and government sponsored enterprises that invested heavily in sub-prime mortgage, is ongoing and has resulted in the global credit crunch. The unexpected and sudden reduction in the availability of loans and increase in the interest rates affect not only the banking and financial sectors, but also the commercial sector relying on the availability of banking facilities. Moreover, it caused significant downturn in the stock markets both in the U.S. and worldwide. The overall effect of the financial crisis is expected to slow the economy growth of the PRC. [Since the beginning of the financial crisis, the Directors have closely reviewed the macro-economic environment.]

With regard to source of funding of the Group, in addition to the financial resources generated from business activities of the Group, the Group also had banking borrowings from commercial banks amounted to approximately RMB[79.0] million as at [30 June] 2009. [As at the Latest Practicable Date], the Group had not received any notification from principal bankers of the Group that the principal banks have any intention of substantially reducing or terminating any part of the Group's available banking facilities.

In light of the foregoing, the Directors consider that performance of the Group in the near future will not be severely jeopardised by the current weak economic sentiment. The future plans and the proposed use of the net proceeds from the [●], as set forth in the section headed “Business — Future Plan and Strategy”, will continue to be implemented as scheduled.

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### RISK FACTORS

The Directors believe that there are certain risks involved in the Group’s operations. They can be categorised as (i) risks relating to the Group, (ii) risks relating to the industrial automation instrument industry; (iii) risks relating to the horological instrument industry, (iv) risks relating to the PRC, and (v) risks relating to the [●].

These risks are summarised below. For a fuller description, please refer to the section headed “Risk Factors” in this document.

#### Risks Relating to the Group

- The Group may encounter unexpected difficulties when expanding its business in the future.
- The construction and installation of the Group’s new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, it may not be able to implement its future plans for expansion.
- The Group is dependent upon a small number of key suppliers from whom it purchases a significant majority of its raw materials.
- The Group is dependent upon timely delivery by its suppliers of certain parts, components and services that meet quality standards set by the Group to manufacture its products.
- The Group is heavily dependent on its key executives and personnel, hiring and retaining a highly qualified workforce.
- The Group’s operating results may fluctuate.
- The Group does not have land use right certificate for a parcel of land in the PRC.
- The Group used not to make contributions to the housing fund.
- The Group used not to obtain medical insurance coverage under the social insurance schemes for its employees.
- The Group may be adversely affected by the recent financial crisis and credit crunch.
- The Group is exposed to credit risks of its distributors.
- Any significant downtime in the Group’s production facilities would adversely affect the Group’s business.
- The Group has limited insurance coverage.
- The Group’s manufacturing processes involve inherent risks and occupational hazards.
- Power shortages or substantial increase in energy costs could have an adverse impact on the Group’s operations.

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### Risks Relating to the Industrial Automation Instrument Industry

- General economic growth in the PRC is a key driver of the Group’s business and financial results, in particular with regard to demand for its high precision industrial automation instrument and technology products. If economic growth in the PRC were to slow or stop in the future due to decrease of the PRC domestic demand or global financial crisis, the Group’s business, turnover and profitability may be harmed.
- If international or Chinese competitors in the Group’s high precision industrial automation instrument and technology products business were in the future to begin to manufacture and sell products in their unique niche in the Chinese market, the Group’s business and profitability may be harmed.
- Demand for and supply of the Group’s high precision industrial automation instrument and technology products may be adversely affected by numerous factors, some of which the Group cannot predict or control, which could adversely affect its results of operations.
- The raw materials used in the Group’s production processes and by its suppliers of component parts are subject to price and supply fluctuations that could increase the Group’s costs of sales and adversely affect the Group’s results of operations.
- If the Group is not able to pass onto its customers for its high precision industrial automation instrument and technology products any future increases in the costs of the raw materials used in the manufacture thereof, the Group’s profitability and profit margins may be harmed.
- Annual turnover derived from sales to the Group’s five largest customers for its high precision industrial automation instrument and technology products represented approximately 58.1%, [37.7]% and [33.7]% of the Group’s total turnover derived from sales of its high precision industrial automation instrument and technology products during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.
- The Group is dependent on the distributors of its high precision industrial automation instrument and technology products and has limited control over their subsequent re-sales to sub-distributors and end-users.
- Rapid changes in the industrial automation instrument industry may render the Group’s industrial automation instrument products obsolete.
- The market in China for high precision industrial automation instrument and technology products has historically been dominated by foreign companies, some of whom have similar or larger market shares and may have more substantial financial and other resources than the Group.
- Some of the Group’s end-markets are cyclical, which may cause it to experience fluctuations in turnover or operating results.
- If the Group fails to manufacture and deliver high quality products, it may lose customers.
- The costs of complying with existing or future environmental regulations, and rectifying any violations of these regulations could increase the Group’s expenses or reduce its profitability.

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- The costs of complying with existing or future governmental regulations on importing and exporting practices and of rectifying any violations of these regulations, could increase the Group’s expenses, reduce its revenues or reduce its profitability.
- The Group’s future research, design and development activities may not yield the expected benefits.
- The Group may be subject to product liability claims.

### **Risks Relating to the Horological Instrument Industry**

- If average selling prices of the Group’s plastic quartz watch movements continue to decline, the Group’s profitability may be harmed.
- If the Group is unable to negotiate with certain of its suppliers related to its horological instrument business to continue to lower their prices, the Group’s future profitability may be harmed if its average selling prices continue to decrease.
- Sales to the Group’s five largest customers of horological instruments in aggregate represented approximately 89.6%, [86.9]% and [96.3]% of the Group’s total sales of horological instruments during the Track Record Period. If the Group is unable to maintain or increase its sales to the foresaid customers, its business and financial results may be harmed.
- The Group is dependent on the distributors of its horological instruments and has limited control over its subsequent re-sales to watch manufacturers.
- The Group’s primary competitors in its horological instrument business may have a number of competitive advantages over the Group.
- Economic conditions and other factors beyond the Group’s control could have a material adverse effect on the Group’s sales, profitability and results of operations.
- The Group makes commitments regarding the level of business it still seeks and accepts, including production schedules and personnel levels, any significant order cancellations, reductions, or delays by its customers could materially and adversely affect its business.
- The prices of the Group’s horological instruments are subject to periodic volatility, which could have a negative impact on the Group’s sales and profit margins on that business line.
- The Group’s horological instruments may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against the Group which could have a material adverse effect on its quartz watch movement business.

### **Risks Relating to the PRC**

- Adverse changes in China’s economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China’s overall economic growth, which in turn, may materially and adversely affect the Group’s business, financial condition and results of operations.

THIS INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Information Pack.

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## SUMMARY

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- Inflation in the PRC may negatively affect the Group’s profitability and growth.
- A downturn in the economy of the PRC may slow down the Group’s growth and profitability.
- Compliance with more stringent environmental and workplace safety regulations may adversely affect the business operations of the Group.
- The Group’s operating costs may increase due to provision of staff benefits as required by the PRC government.
- Changes in the PRC government policy in relation to capital expenditures or other investment in the industries in which the Group’s customers operate may adversely affect the Group’s business operations.
- The Group’s operations may be adversely affected by any unexpected interruptions in its production process.
- The Company is a holding company that heavily relies on dividend payments from its subsidiaries for funding.
- The Group may not be able to adequately protect its intellectual properties, which may adversely affect the business operations of the Group.
- Government control in currency conversion and future movements in foreign exchange rates may adversely affect the Group’s financial condition, results of operations, and ability to remit dividends.
- The Group currently faces foreign currency exchange risk.
- The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to the Group.
- Payment of dividends by the Group is subject to restrictions under the applicable PRC law.
- Withholding tax on dividend income received from the PRC subsidiary of the Group.
- The Group may not be able to continue to enjoy its current preferential tax treatment.
- It may be difficult to effect service of process on, or to enforce judgments against, the Directors or the Company’s senior management who reside in the PRC in connection with disputes brought in courts outside the PRC.
- Acts of God, acts of war and epidemics which are beyond the Group’s control may cause damage, loss or disruption to the Group’s business.
- Dividends on the Shares may be subject to PRC income taxes

**Amongst the above risk factors, attention of investors is particularly drawn to the risk factor entitled “The Group may be adversely affected by the recent financial crisis and credit crunch” which sets forth the likely impact on the Group’s business operations as a result of the recent financial crisis and credit crunch.**