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## RISK FACTORS

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**You should consider carefully all information contained in this prospectus, including the risk factors and uncertainties described below, before making any investment decision in relation to the Offer Shares. Should any of the possible events described below occur, our business, results of operations or financial condition could be materially and adversely affected and the trading price of the Offer Shares could decline significantly, as a result of which, you may lose all or part of your investment.**

**In addition to the risks factors described below, other risks and uncertainties not presently known to us, or not expressed or implied below, or that we currently deem immaterial, may also adversely affect our business, operating results and financial condition in a material respect and the trading price of the Offer Shares could also fall considerably.**

### 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.

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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 prospectus.

**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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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, including over half of the net proceeds we receive from the Global Offering, 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 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 prospectus.

### **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 prospectus.

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 prospectus. There is no assurance that we will always be able to maintain a net current assets position in the future.

Following completion of the Global Offering, we expect to improve our working capital position, taking into account the estimated net proceeds from the Global Offering. Subsequent to 31 December 2009 and up to 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 prospectus.

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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## **RISK FACTORS**

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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 IV to this prospectus, 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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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 prospectus) 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 prospectus.

### **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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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.

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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 five 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.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares and the Global Offering may not result in an active trading market for these securities, which may adversely affect the market price of our Shares**

Prior to the Global Offering, there has not been a public market for our Shares. We have applied to list our Shares on the Main Board. The Offer Price for our Shares will be determined based upon the negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and us. However, we cannot assure you that after the Global Offering, an active public market may be developed or sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected.

#### **Our Controlling Shareholders may take actions that our Shareholders do not agree with or are not in our Shareholders' best interests**

Immediately after the Global Offering, our Controlling Shareholders, Mr. Wong and Ms. Ching, will hold approximately 67.17% of our Shares through The KW Trust and in addition, Ms. Ching will hold approximately 1.00% of our Shares. Their voting rights will therefore heavily influence the voting results in any controlled actions that require majority Shareholders' approval. Mr. Wong and Ms. Ching are not obligated to exercise their voting rights upon any external influence, nor are they obligated to exercise such voting rights in the best interest of us or our minority Shareholders.

We cannot assure you that the voting decisions of our Controlling Shareholders will be in the best interest of us. As a result of their voting decisions, our business operations and financial condition may be negatively affected.

#### **There may be immediate dilution of your Shares**

We may require additional funds in the future to finance our expansion and growth of our operations in the form of the issuance of new Shares or other securities that may be converted into our Shares or other equity-linked securities, other than on a pro-rata basis to existing Shareholders.

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In such event, the percentage ownership of our existing Shareholders may be reduced, resulting in dilution. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

### **Future sales of securities by us or our Shareholders may decrease the value of an investment**

Future sales by us or our existing Shareholders of substantial amounts of Shares after the Global Offering could adversely affect market prices prevailing from time to time. Only a limited number of our Shares will be available for sale immediately after the Global Offering, due to contractual and legal restrictions on resale. Additionally, our Shares held by the Controlling Shareholders are subject to a lock-up period of 12 months after the date on which trading in the Shares commences on the Stock Exchange (see the section headed “Underwriting” in this prospectus).

We are not aware of any intentions of our Controlling Shareholders to dispose of their Shares after the end of the lock-up period. However, our Directors cannot assure you that they will not dispose of any Shares they may now own or in the future, nor can our Directors assure you that they will not issue Shares pursuant to the general mandate. Nonetheless, when such restrictions lapse in the future, or are possibly waived or breached, the future sales of substantial amounts of our Shares, including Shares issued upon exercise of outstanding options and warrants, or the possibility of such sales, could lead to a decline in the market price of our Shares, which would affect our ability to raise equity capital in the future.

### **It may be difficult to effect service of process upon or secure judgments against us or our respective Directors and officers**

Our main operating subsidiaries are incorporated in the PRC. A majority of our senior personnel reside in the PRC and a substantial majority of our assets are located within the PRC. It may not be possible for investors to effect service of process upon those persons within the PRC or to enforce any judgments obtained from non-PRC courts against those persons. The PRC does not have treaties or arrangements providing for the recognition or enforcement of civil judgments of the courts of Hong Kong (except pursuant to the arrangement between the Hong Kong government and the Supreme People’s Court of the PRC as described in the following paragraph) or the U.S. or other western countries. Therefore, the recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult or even impossible. In addition, there are doubts as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong or the U.S. or most other western countries.

On 14 July 2006, the Hong Kong government and the Supreme People’s Court of the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, which became effective on 1 August 2008, a party with a final judgment rendered by a designated Hong Kong court requiring payment of money in a civil and commercial case pursuant to a written choice-of-court agreement may apply to the relevant People’s Court in the PRC for recognition and enforcement of the judgment in the PRC and vice versa. A choice of court agreement in writing is any written agreement entered into between the parties after the effective date of such arrangement under which a Hong Kong court or a PRC court is expressly designated as the court



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having sole jurisdiction for the dispute concerned. It follows that without a choice-of-court agreement, the parties would not be able to benefit from such arrangement, rendering it impossible to enforce a judgment rendered by a Hong Kong court in the PRC or vice versa. Even in the case where a choice-of-court agreement is in place, the outcome of any action taken under such arrangement may still be uncertain as the interpretation of relevant cases have not been fully developed.

**Investors should not place undue reliance on statistics and industry or market information derived from various official or other sources that are contained in this prospectus**

Certain statistics, industry data or other information contained in the sections headed “Summary” and “Industry Overview” in this prospectus is derived from various official or other official sources and commissioned market research reports. Whilst our Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by us, the Selling Shareholder, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates, directors and advisors, or any other parties involved in the Global Offering. Such information may be inconsistent, inaccurate, incomplete or out-of-date. None of us, the Selling Shareholder, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors and advisors or any other parties involved in the Global Offering makes any representation as to the accuracy or completeness of such information which may not be consistent with other information and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics derived from various official or other sources may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Investors should give careful consideration as to the amount of weight or importance placed on such statistics, industry data and other information relating to the economy and the industry.

**The trading price of our Shares may be volatile**

The Offer Price will be determined by us (for itself and on behalf of the Selling Shareholder) and the Joint Global Coordinators (on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market. We cannot assure you that investors will be able to resell their Shares at or above the Offer Price. Following the Global Offering, various factors may affect the trading price of our Shares, including, but not limited to:

- actual or anticipated fluctuations in our interim or annual results of operations;
- changes in financial estimates by securities analysts;
- investor perceptions of us and the investment environment in the U.S., the European Union and Asia, including Hong Kong, Taiwan and the PRC;
- changes in policies and developments related to the computers, consumer electronics and communication industries;
- changes in pricing policies adopted by us and/or our competitors;
- any announcements made by us and/or our competitors;

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- the employment or departure of key personnel;
- the liquidity of the market for our Shares;
- the demand for and supply of our Shares; and
- general economic, social and other conditions.

In addition, the stock markets have in recent years experienced intense volatility that has not corresponded to the operating performance of any particular company. These broad market and industry fluctuations may be caused by factors that are out of our control but may, despite being unrelated to our performance, affect the market price of our Shares.

**Investors may experience difficulties in enforcing their shareholder rights because we are incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions**

We are incorporated in the Cayman Islands and our affairs are governed by the Articles of Association, the Cayman Islands Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands law on protection of minorities is set out in paragraph 3(f) in Appendix V in this prospectus.

**You should not rely on any information contained in press articles or other media regarding our Group and the Global Offering**

Prior to the publication of this prospectus, there has been certain press and media coverage regarding our Group and the Global Offering, including without limitations, Apple Daily (on 27 May 2010), Hong Kong Economic Times (on 27 May 2010) and Wen Wei Po (on 28 May 2010), which included certain financial information, projections, profit forecasts and other information about our Group which is not contained in this prospectus.

We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Offer Shares.