You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as at and for each of the years ended 31 December 2007, 2008 and 2009 and the accompanying notes included in the accountant's report set out in Appendix I in this prospectus. The accountant's report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountant's report set out in Appendix I in this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading provider of capacitive touch pads by volume for use in notebook computers. Touch pad was our core product and revenue driver during the Track Record Period. We also produced touch screens and multi-media buttons.

We have engaged in the touch pad business for over 10 years, during which we have provided capacitive touch pads to Synaptics, a global leader in capacitive touch pads, such that we have become one of the world's leading capacitive touch pad suppliers for notebook computers by volume. From 2004 to 2009, we sold approximately 306.0 million capacitive touch pads in total. According to iSuppli Corporation, during the same period, global capacitive touch pad shipments for the notebook computers segment were estimated to be approximately 579.0 million, and the global shipments for notebook computers were estimated to be approximately 578.2 million, respectively. We obtain the ICs for our touch pads on a consignment basis.

We believe that our circuit assembly experience coupled with our know-how in the control of the production environment have been the main contributing factors in establishing and sustaining our long-term business relationship with Synaptics.

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

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

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

We have obtained accreditations including ISO9001:2008 in respect of our quality management systems and ISO 14001:2004 in respect of our environmental management systems. We have received CE and FCC certifications in respect of our fingerprint segment and have been awarded with certificates of compliance from international conformity assessment authorities. Furthermore, we have also obtained other ISO accreditations for our other products.

In recent years, we have progressed further into developing our own R&D capabilities and devoting additional resources in technological advancement. In the year ended 31 December 2008, our R&D team has achieved breakthroughs in developing various new fingerprint applications and standalone product designs. Between October 2008 and April 2010, we were granted 16 patents and designs and further applied for 46 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States.

Going forward

Envisaging continuing growth of the capacitive touch interface market and long-term customer relationships, we aim to maintain our focus on capacitive touch products as our main and stable source of revenue generation and within the touch product segment, we plan to focus more on touch screens. As stated in the section headed "Use of Proceeds" in this prospectus, we plan to apply approximately 13% of the net proceeds from the Global Offering to enhance and upgrade our production and testing equipment for touch screen related products for customers including Synaptics. In parallel, we will strive to reduce our dependence on one particular business segment by the manufacturing of fingerprint biometric devices, wireless charging devices and plasma lighting products which we believe have potentials for growth.

In relation to our investment and treasury policies in the future, our Directors intend to take a conservative approach in relation to our investment strategy and continue to focus on our core business development, which includes enhancing the competitiveness of our capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices. Our Directors confirm that we do not expect to engage in further investment of financial products. We may, only if and when our Directors consider necessary, enter into foreign exchange hedging contracts in respect of RMB and US$.

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

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Prior to the Global Offering, the companies comprising our Group underwent the Reorganisation to rationalise our corporate structure in preparation for the Global Offering, and as a result our Company became the holding company of our Group. Please refer to the section headed "Statutory and General Information – The Reorganisation" in Appendix VI in this prospectus for details. The Reorganisation has been accounted for as a reorganisation of business under common control using the principle of merger accounting. Accordingly the financial information prepared presents the consolidated results of operation, cashflow and financial position of our Group as if the current group structure upon completion of the Reorganisation had been in existence throughout the

Track Record Period or since the respective dates of incorporation or establishment of the relevant member(s) of our Group, whichever is earlier.

All significant intra-group transactions and balances have been eliminated on consolidation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition and results of operations over the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed "Risks Factors" in this prospectus and as set forth below:

- **Product mix**

  During the Track Record Period, capacitive touch products were our major revenue driver, which accounted for approximately 91.2%, 96.3% and 77.6%, respectively, of our total revenue during the same period. During the Track Record Period, our overall gross profit margins were approximately 22.6%, 21.9% and 29.1%, respectively.

  Our gross profit margins are partially affected by the proportion of sales of our products with higher gross profit margins compared to sales of our products with lower gross profit margins. Our fingerprint biometric devices, lighting source products and wireless charging devices commanded higher gross profit margins (approximately 42.2%, 37.9% and 29.8%, respectively) compared to capacitive touch products (approximately 27.6%) in the year ended 31 December 2009. Going forward, we may continue to adjust our product mix in response to demand and pricing for each product.

- **Increase in production capacity**

  In order to expand our production lines, we relocated our production facilities from Hong Kong to Jiangmen. Since then, we have been expanding the scale of our operations, especially through the expansion of our production facilities in Jiangmen. Our capital expenditures for property, plant and equipment during the Track Record Period were approximately HK$37.9 million, HK$93.9 million and HK$133.3 million, respectively. The increase in our capital expenditures for property, plant and equipment was mainly due to the expansion of our production facilities to accommodate more production lines, as well as the purchase of SMT machines during the Track Record Period. Going forward, we expect that capital expenditure increases relating to the expansion of our production capacity should have a positive impact on our results of operations.

- **Costs of raw materials**

  Costs of raw materials represent a significant portion of our cost of sales. For each of the three years ended 31 December 2009, such costs represented approximately 82.8%, 79.5% and 77.2%, respectively, of our cost of sales. As such, any significant fluctuation in the price of raw materials may have a significant impact on our profitability.

  Our raw materials mainly include PCBs, connectors, flex cables, plastic base, power cables and diodes. In recent years, we have experienced price fluctuations for some raw materials due to various factors including changes in demand and supply for commodities. Nevertheless, we have been able to reduce, to a limited extent, the impact of price fluctuations of raw materials by bulk purchase of these materials. In addition, we believe that our long-term relationships with our major suppliers enhances our bargaining power and ability to obtain better prices.

- **Market competition**

We are one of the largest capacitive touch pad providers in the world by volume. According to iSuppli Corporation, the market for mobile computing devices such as notebook computers, MP3 players and smart phones is expected to expand due to an increase in the popularity of mobile computing. As a result, the market for capacitive touch pads, which are found in essentially all notebook and netbook computers, is also expected to grow in the coming five years. Global touch pad revenue, as estimated by iSuppli Corporation, is expected to increase from approximately US$537 million in 2009 to US$983 million in 2013, representing a CAGR of approximately 16.3%.

Our customers include Synaptics, a global leader in capacitive touch pads, which has been our long-term strategic partner and largest customer during the Track Record Period. Our Directors believe that our 10-year relationship with Synaptics, along with our strengths in cost and quality, gives us a competitive advantage over our competitors in the capacitive touch pad industry. However, we are aware of a number of other contract manufacturers in the capacitive touch pad industry, so our future sales and profitability may more or less be affected by these competitors.

- **Taxation**

Our profitability will also be affected by changes in tax rates, particularly the applicable tax rates in the PRC as we operate in and derive part of our revenue and profits from the PRC. We expect no significant change in tax rates in other jurisdictions where our Group operates.

On 16 March 2007, the National People's Congress of the PRC promulgated the Enterprise Income Tax Law of the PRC, which came into effect on 1 January 2008. The implementation of the Enterprise Income Tax Law has an effect on the level of income tax that we pay and the preferential tax treatment that we are entitled to. According to the income tax law of the PRC in effect before 1 January 2008, foreign invested enterprises (**FIEs**) which are manufacturers with more than ten years of operations are exempt from paying enterprise income tax in the PRC for the first two years starting from the year when the FIEs begin to make a taxable profit after deducting any losses that may be carried over from previous years, and thereafter enjoy a preferential tax rate with a 50.0% reduction for the following three years. Under the Enterprise Income Tax Law, the normal income tax rate of PRC business entities is reduced to 25.0%. It allows businesses that were entitled to an enterprise income tax rate lower than 25.0% before 1 January 2008 a five-year grace period to transition to the higher income tax rate of 25.0%.

Our subsidiary in the PRC is qualified for such tax preferential treatment. For the years ended 31 December 2008 and 2009, we were exempted from paying enterprise income tax in the PRC and for the years ended 31 December 2010 to 2012, we will be entitled to enjoy a 50.0% reduction in tax rate to 12.5%.

We intend to apply for a High-Technology Enterprise Certificate (高新技術企業認定證書) and we would, if such certificate was granted to us, enjoy further preferential tax rates in the future.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial position and results of operations as included in this prospectus is based on the consolidated financial statements prepared using the significant accounting policies set forth in Note 4 to the Accountant's Report set out in Appendix I in this prospectus, which conform with the HKFRS. The critical accounting estimates and judgements that we use in applying our accounting policies are set out in Note 6 to the Accountant's Report set out in Appendix I in this prospectus. Such estimates and judgement are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions or conditions.

Below is a summary of certain significant accounting policies that we believe are important to the presentation of our financial results and positions. We also have other accounting policies that we consider to be significant, the details of which are set forth in Note 4 to the Accountant's Report set out in Appendix I in this prospectus.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within our Group.

We recognise revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Sundry income

Sundry income is recognised when the right to receive payment is established.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	2.5%
– Leasehold improvements, furniture and fixtures and office equipment	10 to 50%
– Machinery	10%
– Computer equipment	20 to 50%
– Motor vehicles	10 to 25%

Construction-in-progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for our use. They are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the amounts are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

Our assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 4.9 to the Accountant's Report).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off in the consolidated income statement within "administrative expenses". Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the consolidated income statement.

RESULTS OF OPERATIONS

The following table presents selected financial data from our Group's consolidated income statement for the years ended 31 December 2007, 31 December 2008 and 31 December 2009, which are derived from, and should be read in conjunction with, the consolidated financial information set forth in the Accountant's Report included in Appendix I in this prospectus. As more fully described in the Accountant's Report included as Appendix I in this prospectus, the financial information was prepared in accordance with HKFRS.

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

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

We derive our revenue principally from the manufacture and sale of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products. Our total revenue increased from HK$674.3 million for the year ended 31 December 2007 to HK$888.3 million for the year ended 31 December 2009, representing a CAGR of 14.8%.

The following table sets out the breakdown of our revenue and the percentage of total revenue for the three years ended 31 December 2007, 2008 and 2009:

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

Note:

1. Consists of plasma light projectors and plasma street lamps.

2. Other products include automotive devices, plastic components, medical light-emitting diode products and mining machine system products.

Revenue derived from our capacitive touch products increased from approximately HK$614.7 million for the year ended 31 December 2007 to approximately HK$689.4 million for the year ended 31 December 2009, representing a CAGR of 5.9%. The capacitive touch products we produced mainly include capacitive touch pads, multi-media buttons and touch screens. Prior to the Track Record Period, the average selling price of our capacitive touch pads decreased by 11.5% from the year ended 31 December 2004 to the year ended 31 December 2005, whereas the average selling price of touch pads decreased by 7.6% in the year ended 31 December 2006 due to the reduction in sizes of PCBs used in capacitive touch pads as a result of technological advancement. During the Track Record Period, there was a gradual decrease in the average selling price of our capacitive touch pads. The decrease in the average selling price of our capacitive touch pads was mainly attributable to factors including general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market. Prior to the Track Record Period, we recorded an increase of 9.1% in the sales volume of capacitive touch pads between the years ended 31 December 2004 and 2005, which was in line with the increasing worldwide demand of touch pads during the year ended 31 December 2005. In relation to the sales volume of our capacitive touch pads during the year ended 31 December 2006, there was an increase of 9.0% in the sales volume when compared to the year ended 31 December 2005, which was mainly due to the temporary suspension of some of our production lines resulting from the relocation of our production facilities from Hong Kong to Jiangmen during the year ended 31 December 2006. For a detailed analysis of the fluctuations in sales volume and average selling price of our capacitive touch pads during the Track Record Period, please refer to the sections headed "Period to Period Comparison of Results of Operations – Year Ended 31 December 2009 Compared to Year ended 31 December 2008 – Revenue" and "Period to Period Comparison of Results of Operations – Year Ended 31 December 2008 Compared to Year Ended 31 December 2007 – Revenue" below in this section.

Our Directors believe that despite the decreasing trend in the average selling price of our capacitive touch products during the Track Record Period, the gross profit margins of our capacitive touch products remained relatively stable at approximately 20.8% and 21.1% respectively for the two years ended 31 December 2007 and 2008. The gross profit margins of our capacitive touch products increased to 27.6% for the year ended 31 December 2009. Such increase was due to the fact that our Group had negotiated with its suppliers during the year ended 31 December 2009 for a bulk purchase discount of raw materials, which had in turn resulted in a decrease in average unit production cost, and the effect of such lowering in average unit production cost outweighed the slight decrease in selling price. The said increase in gross profit margins was also due to the fact that the sales of capacitive touch screens, which have a higher gross profit margin (of approximately 34.3%) as compared to capacitive touch pads, increased significantly from the year ended 31 December 2008 to the year ended 31 December 2009. Furthermore, we consider the decreasing price trend to be in line with the electronics industry norm – as a technology becomes increasingly mature and more commonly applied, the relevant products tend to experience a gradual decrease in price as a result of lower production costs. Hence, our Directors do not consider the decrease in selling prices in capacitive touch products to pose a risk to our Group's business or future financial position, since we have improved our production efficiency and have also taken various cost reduction initiatives to lower our production costs.

Capacitive touch products represented our core product and revenue driver during the Track Record Period, which amounted to approximately 91.2%, 96.3% and 77.6% of our total revenue, respectively. Since 2007, we have been gradually increasing efforts to diversify our product mix including new capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices, which command higher profit margins.

Revenue derived from lighting source products amounted to approximately HK$41.0 million for the year ended 31 December 2007, which subsequently decreased to approximately HK$4.8 million for the year ended 31 December 2008 and increased to approximately HK$17.8 million for the year ended 31 December 2009. During the year ended 31 December 2008, the main product for the lighting source products segment expanded from plasma light projectors to include plasma lighting rear projection TV, which had insignificant revenue contribution. For the year ended 31 December 2009, the increase in revenue derived from lighting source products was mainly due to the increase in sales volume for plasma street lamps and plasma light projectors.

In August 2009, we received our first order for our newly developed wireless charging devices. Revenue derived from our wireless charging devices segment during the year ended 31 December 2009 amounted to approximately HK$102.4 million.

For a detailed analysis of the fluctuations in revenue from sales of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products, please refer to the sections headed "Period to Period Comparison of Results of Operations – Year Ended 31 December 2009 Compared to Year ended 31 December 2008 – Revenue" and "Period to Period Comparison of Results of Operations – Year Ended 31 December 2008 Compared to Year Ended 31 December 2007 – Revenue" below in this section.

Cost of sales

Our cost of sales mainly consists of costs of raw materials, direct labour costs, depreciation, consumable parts and R&D expenses (production). The following table sets out the breakdown of our costs of sales as a percentage of total costs of sales for the years indicated.

	Year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Cost of raw materials	431,850	82.8%	465,494	79.5%	486,387	77.2%
Direct labour costs	50,479	9.7%	75,387	12.9%	84,964	13.6%
Depreciation	14,043	2.7%	14,400	2.5%	26,715	4.2%
Consumable parts	5,620	1.1%	11,764	2.0%	17,681	2.8%
R&D expenses (production)	2,283	0.4%	2,045	0.3%	–	0.0%
Others	17,570	3.3%	16,611	2.8%	14,055	2.2%
Total	521,845	100%	585,701	100%	629,802	100%

Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin for our products for the years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Gross profit	**152,448**	**164,087**	**258,546**

Gross profit margin	Year ended 31 December		
	2007	**2008**	**2009**
	(%)	*(%)*	*(%)*
Capacitive touch products	*20.8*	*21.1*	*27.6*
Fingerprint biometric devices	*N/A*	*33.3*	*42.2*
Lighting source	*35.0*	*35.8*	*37.9*
Wireless charging devices	*N/A*	*N/A*	*29.8*
Others	*55.4*	*42.9*	*35.2*
Overall	*22.6*	*21.9*	*29.1*

Gross profit margin for our capacitive touch products increased from approximately 20.8% for the year ended 31 December 2007 to approximately 21.1% for the year ended 31 December 2008 and then further increased to 27.6% for the year ended 31 December 2009. Our gross profit was driven primarily by an increase in the proportion of our non-touch products and the increase in gross profit from our capacitive touch products. Our overall gross profit margin decreased from approximately 22.6% for the year ended 31 December 2007 to approximately 21.9% for the year ended 31 December 2008 and then increased to approximately 29.1% for the year ended 31 December 2009.

For the year ended 31 December 2008, our gross profit margins dropped slightly from the immediately preceding year since there was a shortage of staff in the labour market in 2008, resulting in our having to pay for higher recruitment costs and resulting in an increase in direct labour costs for the year ended 31 December 2008. For the year ended 31 December 2009, the significant increase in gross profit margins was mainly due to our expanded product portfolio and our engagement in the production of more lighting source products, fingerprint biometric devices and wireless charging devices, all of which carry higher gross profit margins.

Other income/(losses) – net

Other income/(losses) – net mainly includes gain on disposals of financial assets at fair value through profit or loss, and loss on disposals of property, plant and equipment.

During the Track Record Period, we had net other income of approximately HK$19.0 million, net other losses of HK$0.4 million and net other income of HK$1.2 million, respectively. The net other income for the year ended 31 December 2007 was mainly derived from the gain on disposal of financial assets at fair value (mainly investments in listed shares) of approximately HK$25.1 million during that period.

Distribution costs

Our distribution costs mainly consist of freight and transportation costs and promotional expenses.

For the years ended 31 December 2007, 2008 and 2009, our distribution costs were approximately HK$6.3 million, HK$4.2 million and HK$6.1 million, respectively.

	Year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Freight and transportation costs	6,101	97.4%	3,872	91.3%	5,648	92.1%
Promotional expenses	70	1.1%	307	7.2%	246	4.0%
Others	91	1.5%	63	1.5%	241	3.9%
Total	6,262	100%	4,242	100%	6,135	100%

Administrative expenses

Our administrative expenses mainly consist of staff costs, rental and management fees, travelling and entertainment expenses, depreciation, office expenses and R&D expenses (administrative).

Administrative expenses were approximately HK$57.1 million for the year ended 31 December 2007 and remained stable at approximately HK$57.9 million for the year ended 31 December 2008, but subsequently increased to approximately HK$81.7 million for the year ended 31 December 2009. The increase in administrative expenses for the year ended 31 December 2009 was mainly attributable to the combined effects of increases in administrative staffs costs, depreciation, office expenses and R&D expenses (administrative) during this period.

	Year ended 31 December					
	2007		2008		2009	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Staff costs	25,283	44.3%	22,712	39.2%	34,162	41.8%
Office expenses	7,777	13.6%	6,228	10.8%	8,418	10.3%
R&D expenses (administrative)	7,395	12.9%	10,190	17.6%	11,091	13.6%
Depreciation	4,187	7.3%	4,848	8.4%	6,240	7.6%
Travelling & entertainment expenses	3,399	6.0%	3,232	5.6%	5,072	6.2%
Rental and management fees	2,008	3.5%	2,238	3.9%	4,109	5.0%
Repair and maintenance	1,485	2.6%	554	1.0%	375	0.5%
Recruitment expenses	47	0.1%	173	0.3%	1,337	1.6%
Bank charges	656	1.1%	1,004	1.7%	1,840	2.3%
Insurance expenses	790	1.4%	372	0.6%	1,176	1.4%
Legal and Professional fees	226	0.4%	2,294	4.0%	1,953	2.4%
Miscellaneous(Note 1)	3,863	6.8%	4,081	6.9%	5,954	7.3%
Total	57,116	100%	57,926	100%	81,727	100%

Note:

1. Miscellaneous mainly consists of audit fees, foreign exchange differences, consumables, stamp duty, other taxes and donations made to charity.

Operating profit

For the years ended 31 December 2007, 2008 and 2009, our operating profit was approximately HK$108.1 million, HK$101.5 million and HK$171.9 million, respectively.

Finance costs – net

Our finance income is interest income on bank deposits. Our finance costs consist primarily of interest on bank loans, bank overdrafts and trust receipt loans, and finance lease obligations.

For the years ended 31 December 2007, 2008 and 2009, our net finance costs were approximately HK$10.7 million, HK$4.6 million and HK$8.2 million, respectively.

Income tax expense

Hong Kong profits tax has been provided for at the rates of 17.5%, 16.5% and 16.5% on the estimated assessable profit for the years ended 31 December 2007, 2008 and 2009, respectively.

The PRC statutory income tax rate applicable to World Fair Heshan, our PRC subsidiary, is 25%. Pursuant to the relevant tax regulations in the PRC, World Fair Heshan is eligible for an exemption from the PRC enterprise income tax for the years ended 31 December 2008 and 2009 (as 2008 was its first profit making year), followed by a 50% reduction for the three immediately following years. Withholding income tax of 5% is also imposed on dividends relating to profits earned by World Fair Heshan from 2008 onwards in case these profits are intended to be distributed to its Hong Kong holding company.

Our effective tax rates during the Track Record Period were 18.2%, 11.2% and 6.5%, respectively. The change in the effective tax rate in subsequent years is caused by an increase in the profitability of the Group's subsidiary in the PRC and the reduction in the Hong Kong tax rate from 17.5% to 16.5% during the year ended 31 December 2008.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2009 compared to Year ended 31 December 2008

Revenue

Our revenue for the year ended 31 December 2009 was approximately HK$888.3 million representing an increase of HK$138.5 million, or 18.5%, compared with revenue of HK$749.8 million for the year ended 31 December 2008.

Revenue derived from capacitive touch products decreased from approximately HK$722.2 million to HK$689.4 million, or by 4.5%, from the year ended 31 December 2008 to 31 December 2009. Despite the increase in sales volume of 3.1% of our touch pads during 2009, the net effect of a decrease in sales price per unit resulted in a decline in overall revenue from touch products.

Our Directors believe that the increase in sales volume of our capacitive touch pads in the year ended 31 December 2009 was in line with the decreasing price trend and increase in global demand for touch pads used in notebook computers during the same period according to the iSuppli Touch Report, as well as the increase in revenue from sales to Synaptics, our major customer of capacitive touch pads. Furthermore, we were not aware of any significant competitors having entered into the market due to the high entry barriers of our business. The increase in our production capacity, production efficiency and ability to cope with shorter production delivery dates contributed to an increase in sales orders from our customers.

The decrease of 8.8% in our average touch pad selling price for the year ended 31 December 2009 was mainly attributable to general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, a general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

In addition to our core capacitive touch products, we began to diversify into new products during the second half of 2008. We launched our fingerprint biometric devices in the second half of 2008 and derived approximately HK$69,000 and HK$42.3 million of revenue from such sales during the years ended 31 December 2008 and 31 December 2009, respectively. The significant increase in revenue from fingerprint biometric devices was mainly due to increased sales orders during the fourth quarter of 2009.

We also commenced our commercial production of wireless charging devices in the second half of 2009 and derived revenue of approximately HK$102.4 million during the year ended 31 December 2009.

The increase in revenue derived from lighting source products from approximately HK$4.8 million for the year ended 31 December 2008 to HK$17.8 million for the year ended 31 December 2009 was mainly due to the increase in sales volume of our plasma street lamp products.

Cost of sales

Cost of sales for the year ended 31 December 2009 was approximately HK$629.8 million, representing an increase of HK$44.1 million, or 7.5%, compared with HK$585.7 million for the year ended 31 December 2008. The increase in cost of sales was proportionally less than the increase in our total revenue, and was primarily due to the discounts we obtained for raw materials as a result of bulk purchases.

Gross profit

Gross profit for the year ended 31 December 2009 was approximately HK$258.5 million, representing an increase of HK$94.4 million, or 57.5%, from HK$164.1 million for the year ended 31 December 2008. Our gross profit margin for the year ended 31 December 2009 was 29.1%, compared with 21.9% for the year ended 31 December 2008. The increase in gross profit margin was primarily caused by increased sales of products with higher gross profit margins, including fingerprint biometric devices, lighting source products and wireless charging devices.

We launched our fingerprint biometric devices in the second half of 2008 and the gross profit margin for this product was approximately 42.2% during the year ended 31 December 2009. We also commenced production of wireless charging devices in August 2009 and the gross profit margin for this product was approximately 29.8% during the same period. As for our lighting source segment, the aggregate gross profit margin for the year ended 31 December 2009 was approximately 37.9%.

Other income/(losses) – net

Net other income for the year ended 31 December 2009 was approximately HK$1.2 million, compared to a net loss of HK$0.4 million for the year ended 31 December 2008.

Distribution costs

Distribution costs for the year ended 31 December 2009 were approximately HK$6.1 million, representing an increase of HK$1.9 million, or 45.2%, as compared to HK$4.2 million for the year ended 31 December 2008. Such increase was caused by the increased sales volume and the delivery cost of machineries acquired during the year ended 31 December 2009.

Administrative expenses

Administrative expenses for the year ended 31 December 2009 were approximately HK$81.7 million, representing an increase of HK$23.8 million, or 41.1%, as compared to HK$57.9 million for the year ended 31 December 2008. Such increase was due to the recruitment of more senior management staff in anticipation of our Group's expansion and the recognition of expenses relating to the Share Incentive Scheme. The combined effect was a significant increase of HK$11.5 million in staff costs. Moreover, our R&D expenses also increased by HK$0.9 million due to increased expenditures on new technologies for products such as fingerprint applications, touch screens, multi-media buttons and lighting source. Our rental and management expenses during the year ended 31 December 2009 were approximately HK$4.1 million, representing an increase of approximately HK$1.9 million compared to the year ended 31 December 2008, which was mainly attributable to the additional rents we paid in relation to our new offices in Hong Kong and Taiwan. The increase in office expenses from approximately HK$6.2 million during the year ended 31 December 2008 to approximately HK$8.4 million during the year ended 31 December 2009 was mainly due to the opening of our Taiwan office during the year ended 31 December 2009.

Finance costs – net

Our net finance costs for the year ended 31 December 2009 were approximately HK$8.2 million, representing an increase of HK$3.6 million, or 78.3%, from HK$4.6 million for the year ended 31 December 2008. Such increase primarily resulted from an increase in bank loans, bank overdrafts and trust receipt loans facilities.

Profit before income tax

As a result of the aforementioned factors, profit before income tax for the year ended 31 December 2009 was approximately HK$163.7 million, representing an increase of approximately HK$66.8 million, or 68.9%, from HK$96.9 million for the year ended 31 December 2008.

Income tax expense

Income tax expense for the year ended 31 December 2009 was approximately HK$10.6 million, representing a decrease of approximately HK$0.3 million, or 2.8%, from HK$10.9 million for the year ended 31 December 2008. Our effective tax rate decreased from 11.2% for the year ended 31 December 2008 to 6.5% for the year ended 31 December 2009. The lower effective tax rate during such period was caused by an increase in the profitability of our subsidiary in the PRC, which has a lower effective tax rate due to tax exemption.

Profit for the year

For the year ended 31 December 2009, our profit was approximately HK$153.1 million, representing an increase of approximately HK$67.1 million, or 78.0%, from approximately HK$86.0 million for the year ended 31 December 2008.

Year Ended 31 December 2008 Compared To Year Ended 31 December 2007

Revenue

Revenue for the year ended 31 December 2008 was approximately HK$749.8 million, an increase of approximately HK$75.5 million, or 11.2%, compared to HK$674.3 million for the year ended 31 December 2007. The significant increase in revenue was primarily due to a 9.0% increase in the sales volume of capacitive touch pads for the year ended 31 December 2008. Our Directors believe that the increase in sales volume of our capacitive touch pads for the year ended 31 December 2008 was in line with the decreasing price trend and increase in global demand for touch pads used in notebook computers during the same period as reported by the iSuppli Touch Report, as well as the increase in revenue from sales to Synaptics, our major customer of capacitive touch pads. Furthermore, we were not aware of any significant competitors having entered into the market due to the high entry barriers of our business. The increase in our production capacity, production efficiency and ability to cope with shorter production delivery dates contributed to an increase in sales orders from our customers.

During the same period, the average selling price of touch pads per unit decreased by 8.8%, which was mainly attributable to general industry price trends, the reduction in sizes of PCBs used in touch pads due to technological advancement, the general reduction in prices of raw materials for producing touch products, as well as increased competition in the touch products market.

We had also launched our fingerprint biometric devices in the second half of 2008 which accounted for a limited amount of revenue to our Group for the year ended 31 December 2008. In relation to revenue from lighting source products, as a result of a shift in our lighting products customer's demand from plasma light projectors to plasma light products, our revenue decreased from HK$41.0 million in the year ended 31 December 2007 to HK$4.8 million in the year ended 31 December 2008.

Cost of sales

Cost of sales for the year ended 31 December 2008 was HK$585.7 million, an increase of HK$63.9 million, or 12.2%, compared with HK$521.8 million for the year ended 31 December 2007. Such increase was primarily due to an increase in our direct labour costs from HK$50.5 million for the year ended 31 December 2007 to HK$75.4 million for the year ended 31 December 2008 as a result of an increase in staff head count and staff wages. The increase in staff head count also resulted in an increase in consumable parts (which include the cost of staff uniforms) of approximately HK$6.1 million.

Gross profit

Gross profit for the year ended 31 December 2008 was approximately HK$164.1 million, an increase of approximately HK$11.7 million, or 7.7%, from HK$152.4 million for the year ended 31 December 2007. Our overall gross profit margin for the year ended 31 December 2008 was 21.9%, a slight decrease from 22.6% for the year ended 31 December 2007. The change in our overall gross profit margin was mainly caused by higher labour costs as a result of labour shortage in 2008 and the installation of our BAAN ERP system, both of which increased our costs of sales.

Other income/(losses) – net

Net other losses for the year ended 31 December 2008 were approximately HK$0.4 million, compared with net other income of HK$19.0 million for the year ended 31 December 2007. During the year ended 31 December 2007, we recorded a gain from our disposal of financial assets at fair value (mainly investments in listed shares) of HK$25.1 million, which was partially offset by a HK$6.7 million loss on disposal of property, plant and equipment.

Distribution costs

Distribution costs for the year ended 31 December 2008 were approximately HK$4.2 million, representing a decrease of approximately HK$2.1 million, or 33.3%, as compared to HK$6.3 million for the year ended 31 December 2007. The decrease was mainly caused by our adopting a more cost effective method of delivery, namely, from transporting by sea and road for the year ended 31 December 2007 to transporting by road only for the year ended 31 December 2008, which had resulted in lower freight and transportation costs.

Administrative expenses

Administrative expenses for the year ended 31 December 2008 were approximately HK$57.9 million, representing a slight increase of HK$0.8 million, or 1.4%, as compared to HK$57.1 million for the year ended 31 December 2007. The slight increase in administrative expenses was mainly caused by higher R&D and rental expenses.

Finance costs – net

For the year ended 31 December 2008, our net finance costs were approximately HK$4.6 million, representing a decrease of approximately HK$6.1 million, or 57.0%, from HK$10.7 million for the year ended 31 December 2007. The said decrease was primarily caused by a decrease in finance lease obligations, as well as a decrease in interest rates.

Profit before income tax

As a result of the aforementioned factors, profit before income tax for the year ended 31 December 2008 was approximately HK$96.9 million, representing a decrease of approximately HK$0.5 million, or 0.5%, from HK$97.4 million in the year ended 31 December 2007.

Income tax expense

Income tax expense for the year ended 31 December 2008 was approximately HK$10.9 million, representing a decrease of approximately HK$6.9 million, or 38.8%, from approximately HK$17.8 million in the year ended 31 December 2007. The decrease was mainly due to the PRC enterprise income tax exemption enjoyed by World Fair Heshan in 2008. As a result of this tax exemption, our overall effective tax rate decreased from 18.2% for the year ended 31 December 2007 to 11.2% for the year ended 31 December 2008.

Profit for the year

For the year ended 31 December 2008, our net profit was approximately HK$86.0 million, representing an increase of approximately HK$6.4 million, or 8.0%, from approximately HK$79.6 million in the year ended 31 December 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements principally through a combination of cash flow from operations, internal resources and bank borrowings. Our principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures.

Cash flow

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

Net cash generated from operating activities

Net cash generated from operating activities primarily consists of profit before income tax adjusted for finance income/costs, depreciation and amortisation, loss on disposal of property, plant and equipment, gain on disposal of financial assets at fair value through profit or loss and the effect of changes in working capital.

We derive our cash inflow from operating activities principally from the receipt of payments from sales of our products. Our cash outflow from operations mainly includes purchases of raw materials, as well as staff costs.

Net cash generated from operating activities for the year ended 31 December 2007 amounted to approximately HK$80.4 million, while our profit before income tax for the same period was approximately HK$97.4 million. The difference of approximately HK$17.0 million was primarily attributable to the gain on disposal of financial assets of approximately HK$25.1 million, depreciation of approximately HK$18.2 million, the increase of trade receivables of approximately HK$34.2 million and the increase of accruals and other payables of approximately HK$23.8 million.

Net cash generated from operating activities for the year ended 31 December 2008 amounted to approximately HK$148.5 million, while our profit before income tax for the same period was approximately HK$96.9 million. The difference of approximately HK$51.6 million was primarily attributable to depreciation expense of approximately HK$19.2 million, a decrease in inventories of approximately HK$11.5 million, a decrease in trade receivables of approximately HK$17.3 million, an increase in accruals and other payables of approximately HK$9.5 million and Hong Kong profits tax paid of approximately HK$9.9 million.

Net cash generated from operating activities for the year ended 31 December 2009 amounted to approximately HK$26.7 million, while our profit before income tax for the same period was approximately HK$163.7 million. The difference of approximately HK$137.0 million was primarily attributable to an increase in trade and bills payables of approximately HK$123.7 million, which was partially offset by an increase in inventories of approximately HK$72.8 million and an increase in trade receivables of approximately HK$181.4 million during the same period.

Net cash generated from/(used in) investing activities

Net cash generated from investing activities for the year ended 31 December 2007 amounted to approximately HK$31.5 million, which was primarily attributable to the purchase of property, plant and equipment of approximately HK$26.8 million and an increase in pledged bank deposits of approximately HK$4.7 million, which was partially offset by a decrease in amounts due from Directors of approximately HK$22.3 million and the proceeds from disposal of financial assets of HK$40.0 million.

Net cash used in investing activities for the year ended 31 December 2008 amounted to approximately HK$160.8 million, which was primarily attributable to the purchase of property, plant and equipment of approximately HK$77.3 million and an increase in pledged bank deposits of approximately HK$37.3 million and amounts due from Directors of approximately HK$46.4 million.

Net cash used in investing activities for the year ended 31 December 2009 amounted to be approximately HK$82.3 million, which was primarily attributable to an increase in pledged bank deposits of HK$27.0 million and the purchase of property, plant and equipment of approximately HK$95.1 million, which was partially offset by a decrease of amounts due from directors of approximately HK$52.5 million.

Net cash (used in)/generated from financing activities

Net cash used in financing activities for the year ended 31 December 2007 amounted to approximately HK$102.3 million, which was primarily due to repayments of bank borrowings of approximately HK$25.8 million, capital repayment of finance lease obligations of approximately HK$32.9 million and dividends paid of approximately HK$51.0 million.

Net cash generated from financing activities for the year ended 31 December 2008 amounted to approximately HK$24.1 million, which was mainly due to newly raised bank borrowings of approximately HK$60.4 million and partially offset by capital repayments of bank borrowings of approximately HK$33.6 million.

Net cash generated from financing activities for the year ended 31 December 2009 amounted to approximately HK$72.6 million, which was primarily attributable to an increase in bank borrowings of approximately HK$354.6 million, which was partially offset by the repayments of bank borrowings of HK$204.8 million.

MAJOR FINANCIAL RATIOS

	Year ended 31 December		
	2007	**2008**	**2009**
Trade receivable turnover (days)[1]	25	27	56
Trade and bills payable turnover (days) [2]	87	77	108
Inventory turnover (days)[3]	30	24	40
Gearing ratio[4]	47%	24%	41%
Current ratio[5]	0.7	0.7	1.0
Return on equity[6]	124%	57%	63%

Notes:

1 The trade receivable turnover days is calculated based on the average of the beginning and ending balance of trade receivables, net of provision on impairment, for the year divided by revenue during the year and multiplied by the number of days during the year.

2 The trade payable turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year divided by total cost of sales for the year, and multiplied by the number of days during the year.

3 Inventory turnover days is calculated based on the average of the beginning and ending balance of inventories for the year divided by cost of sales for the year, and multiplied by the number of days during the year.

4 Gearing ratio is calculated by dividing net debt by total capital as at the end of the respective years multiplied by 100%. Net debt is calculated as total borrowings including finance lease obligations less cash and cash equivalents and pledged bank deposits.

5 The current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective years.

6 Return on equity equals the profit for the year divided by owner's equity attributable to our Company's equity holders as at the end of the respective years.

Trade receivables turnover

Our trade receivables represent receivables for sales of our products to our customers. In general, during the Track Record Period our customers were granted a credit period of 30 to 90 days.

Trade receivables turnover slightly increased from 25 days for the year ended 31 December 2007 to 27 days for the year ended 31 December 2008. Trade receivables turnover increased to 56 days for the year ended 31 December 2009, mainly due to the extension of the credit period granted to Synaptics, our major customer, from 30 days to 60 days.

The following is an ageing analysis of trade receivables at each balance sheet date:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	55,924	46,027	147,400
31 to 60 days	1,536	500	73,208
61 to 90 days	6,350	22	6,715
91 to 120 days	52	–	598
Over 120 days	153	153	11
	64,015	46,702	227,932
Less: Provision for impairment of receivables	(153)	(153)	–
Total:	63,862	46,549	227,932

The substantial increase in trade receivables from approximately HK$46.5 million as at 31 December 2008 to approximately HK$227.9 million as at 31 December 2009 was mainly attributable to the increase in the revenue of our Group from approximately HK$119.3 million for the two months ended 31 December 2008 to approximately HK$258.3 million for the two months ended 31 December 2009, which is mainly attributable to the sales of new products (e.g. fingerprint biometric devices, wireless charging devices and plasma street lamps), and the extension of credit period for Synaptics from 30 days in 2008 to 60 days starting from July 2009 as a result of commercial discussions between Synaptics and our Group. Our Directors believe that it is reasonable and in line with the industry practice for our Group to offer Synaptics a 60 days' credit period.

Trade and bills payables turnover

Our trade and bills payables are derived primarily from payables to our suppliers. The credit periods granted to us by our suppliers is determined on a case-by-case basis. In general, our suppliers during the Track Record Period granted us a credit period of approximately 90 days.

Turnover of trade and bills payables days decreased from 87 days for the year ended 31 December 2007 to 77 days for the year ended 31 December 2008. Such turnover days for both years are in line with the average credit period of 90 days.

Turnover of trade and bills payables days increased from 77 days for the year ended 31 December 2008 to 108 days for the year ended 31 December 2009. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the increase in trade payables turnover was in line with the increasing trend of our trade receivables turnover for the year ended 31 December 2009.

An ageing analysis of our trade and bills payables as at each balance sheet date indicated, is set out as follows.

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	38,569	61,950	105,132
31 to 60 days	41,524	31,279	92,826
61 to 90 days	30,720	26,579	40,436
91 to 120 days	7,034	2,683	9,715
Over 120 days	4,311	2,235	316
	122,158	124,726	248,425

Inventory turnover

Our inventories mainly comprise raw materials, components and finished goods for temporary storage prior to delivery to customers. Our internal control policy aims to maintain sufficient inventory levels for our production, relying on a just-in-time manner for key components. During the Track Record Period, our inventory turnover remained reasonably short and stable and did not experience material fluctuations. The inventory turnover days decreased from 30 days for the year ended 31 December 2007 to 24 days for the year ended 31 December 2008. During the year ended 31 December 2009, the inventory turnover days increased to 40 days, which was mainly attributable to additional raw materials purchased for production in anticipation of an increase in sales volume.

The following table sets out a breakdown of inventories for the periods indicated.

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	22,534	17,369	70,469
Work in progress	9,600	7,805	17,504
Finished goods	12,286	7,754	17,718
Total:	44,420	32,928	105,691

Gearing ratio

Our gearing ratio decreased from 47% as at 31 December 2007 to 24% as at 31 December 2008 because of an increase in total equity as a result of business growth. Our gearing ratio increased from 24% as at 31 December 2008 to 41% as at 31 December 2009, mainly due to an increase in bank borrowings which was in line with the expansion of our business during this period.

Current ratio

Our current ratio as at 31 December 2007, 2008 and 2009 remained stable at 0.7, 0.7 and 1.0, respectively.

Return on equity

Return on equity decreased from 124% for the year ended 31 December 2007 to 57% for the year ended 31 December 2008 due to an increase in owner's equity attributable to our Company's equity holders for the year ended 31 December 2008 as a result of an increase in total equity resulting from retained earnings accumulated during this period. The increase in return on equity to 63% for the year ended 31 December 2009 was mainly attributable to the increase in net profit during that period.

Intangible assets

Our intangible assets mainly consisted of capitalised development costs with regards to fingerprint biometric devices and lighting source products. The development costs as at 31 December 2009, which mainly included employee costs for the R&D team, amounted to approximately HK$10.1 million together with expenses relating to the application of patents and trademarks which amounted to approximately HK$1.3 million. Such intangibles assets are amortised over their estimated useful life of five years on a straight-line basis.

Prepayments, deposits and other receivables

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Prepayments for purchase of inventories	41	218	11,670
Utility and other deposits	1,330	1,217	4,272
Value-added tax recoverable	1,834	3,282	10,870
Others(Note 1)	1,277	1,512	5,989
	4,482	6,229	32,801
Non-current			
Prepayment for purchase of machinery	1,887	1,725	3,299

Note:

1. Others mainly consists of prepayment for tax consultancy fees, banking advisory service charges and other miscellaneous prepayments and deposits.

Our prepayments for purchase of inventories were approximately HK$41,000, HK$0.2 million and HK$11.7 million as at 31 December 2007, 2008 and 2009, respectively. The significant increase in prepayments for purchase of inventories arose mainly from the increase in sales volume that led to an increase in inventories during the same period. As at the Latest Practicable Date, the total prepayment amount of the Group as at 31 December 2009 has been substantially utilised.

Our utility and other deposits were approximately HK$1.3 million, HK$1.2 million and HK$4.3 million as at 31 December 2007, 2008 and 2009, respectively.

Our value-added tax recoverable was approximately HK$1.8 million, HK$3.3 million and HK$10.9 million as at 31 December 2007, 2008 and 2009, respectively. The increasing trend was primarily due to our purchase of additional raw materials for our expansion in production during the Track Record Period.

Financial assets at fair value through profit or loss

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Equity linked structure notes	1,947	1,056	–
Listed shares	–	–	1,403
	1,947	1,056	1,403

We purchased an equity-linked note convertible into shares of HSBC Holdings Plc ("HSBC") during the year ended 31 December 2006 with a nominal amount of USD150,000 (equivalent to HK$1,170,000) and a maturity date of 22 December 2008. The equity-linked note was subsequently redeemed during the year ended 31 December 2007. The relevant gain was recognised and included in the gain on disposal of financial assets at fair value through profit or loss.

We had also purchased and held another two equity-linked notes during the year ended 31 December 2007 with nominal amounts of USD100,000 (equivalent to HK$780,000) and USD150,000 (equivalent to HK$1,170,000), respectively, and maturity dates of 9 July 2009 and 10 July 2009, respectively. Our maximum possible losses in relation to such equity-linked notes are their respective nominal amounts.

The aforementioned equity-linked notes have already matured and were both converted into HSBC shares in July 2009. We plan to retain the said HSBC shares for the time being.

In relation to our investment and treasury policies in the future, our Directors confirm that we will take a conservative approach in relation to our investment strategy and will continue to focus on our core business development which includes enhancing our competitive position in the capacitive touch products, fingerprint biometric devices and lighting products markets. Our Directors confirm that we do not expect to engage in further investment in financial products, save for entering into foreign exchange forward contracts for hedging purposes if our Directors deem such arrangements to be necessary and appropriate.

Balances with related parties

Details of the balances with related parties are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from related companies			
IT Growth Holdings Limited	–	6	–
Kick-Start Technology Limited	7	14	–
	7	20	–
Amounts due from/(to) directors			
Mr. Wong Kwok Fong	10,482	56,326	(369)
Ms. Ching Pui Yi	–	518	(245)
	10,482	56,844	(614)
Amount due to a related company			
World Fair Technology Holdings Limited	10,434	10,421	–

The related companies are companies beneficially owned by our Controlling Shareholders who are also our Directors. The balances with related companies and directors are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these balances approximate their fair values, which represent our Group's maximum exposure to credit risk at the respective balance sheet date. Our Directors expect that all outstanding balances with related parties will be settled before the Listing.

Pledged bank deposits

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Pledged bank deposits	19,088	56,423	83,431

As at 31 December 2007, 2008 and 2009, we had pledged bank deposits of approximately HK$19.1 million, HK$56.4 million and HK$83.4 million, respectively. The significant increase in pledged bank deposits during the Track Record Period was mainly due to the increase in our Group's banking facilities during the Track Record Period.

Bank borrowings

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current			
Bank loans	18,860	–	89,003
Current			
Bank loans	–	18,860	111,858
Bank overdrafts	178	–	6,437
Trust receipts loans	2,973	60,385	28,279
Total bank borrowings	22,011	79,245	235,577

Our borrowings at the balance sheet dates were repayable as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	3,151	79,245	146,574
Between one and two years	18,860	–	48,347
Between two and five years	–	–	40,656
	22,011	79,245	235,577

We had total outstanding bank borrowings of approximately HK$22.0 million, HK$79.2 million and HK$235.6 million as at 31 December 2007, 2008 and 2009, respectively. The increase in total bank borrowings after the relocation of our production facilities in 2007 was in line with our expansion of production.

Accruals and other payables

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Payable for purchase of property, plant and equipment	6,092	11,005	17,028
Salary and wages payable	5,778	8,173	12,817
Accrued operating expenses	4,190	4,254	7,883
Advance receipts from customers	136	646	306
Provision for value-added tax and other taxes in the PRC	6,515	8,447	6,608
Other accruals and other payables	5,905	5,614	7,569
	28,616	38,139	52,211

Total accruals and other payables as at 31 December 2009 were approximately HK$52.2 million, representing an increase of HK$14.1 million, whereas as at 31 December 2008, total accruals and other payables were approximately HK$38.1 million, representing an increase of approximately HK$9.5 million from approximately HK$28.6 million as at 31 December 2007. The increase in total accruals and other payables was mainly attributable to an increase in payables for the purchase of property, plant and equipment, and increased salary and wages payable resulting from the increased headcount as we expanded our production lines.

Working Capital Positions

We had recorded net current liabilities of approximately HK$65.5 million and HK$78.6 million as at 31 December 2007 and 2008 respectively, which was principally attributable to the utilisation of short-term bank borrowings to finance our operational and capital expenditure, as well as unsettled trade and bills payables as at each of the years above. The increase in capital expenditure was primarily attributable to expenditure for property, plant and equipment during the Track Record Period, which increased from HK$37.9 million for the year ended 31 December 2007 to HK$133.3 million for the year ended 31 December 2009, in order to support the business growth of our Group. The considerable amount of unsettled trade and bills payables during the Track Record Period, which are included in current liabilities, was mainly attributable to a credit period of approximately 90 days granted to us by our suppliers and the relative trade and bills payables turnover days, which ranged from 77 days to 108 days, during the same period. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the significant balance of trade and bills payables was in line with the trend of our trade receivables.

As at 31 December 2009, our working capital position improved and resulted in a net current assets position which was mainly due to increased profit recorded during the Track Record Period and the replacement of various short-term bank borrowings with long-term borrowings by our Group. Going forward, our Directors expect to continue utilising banking facilities to support part of our operational and capital expenditure where necessary.

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.

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, and our intention to replace our short-term borrowings with long-term borrowings.

NET CURRENT LIABILITIES AS OF 30 APRIL 2010

As at 30 April 2010, being the latest practicable date for the purpose of this working capital statement, we had net current liabilities of approximately HK$4.6 million, comprising current assets of approximately HK$572.9 million and current liabilities of approximately HK$577.5 million.

The following table sets out the composition of our unaudited current assets and liabilities as at 30 April 2010:

	HK$'000
Current assets	
Inventories	194,533
Trade receivables	210,373
Prepayments, deposits and other receivables	38,372
Financial assets at fair value through profit or loss	1,403
Pledged bank deposits	89,425
Cash and cash equivalents	38,822
	572,928
Current liabilities	
Trade and bills payables	287,626
Accruals and other payables	58,166
Bank borrowings	182,675
Finance lease obligations	21,052
Current income tax liabilities	8,778
Amounts due to directors	19,251
	577,548
Net current liabilities[Note]	**(4,620)**

Note: The net current liabilities position as at 30 April 2010 is mainly attributable to our Company's declaration of dividends in the amount of approximately HK$15.4 million in March 2010. Subsequent to 31 December 2009 and up to the Latest Practicable Date, our Group has obtained HK$47 million of long-term loans. Following completion of the Global Offering, taking into account the estimated net proceeds from the Global Offering, our intention is to continue to replace our short-term borrowings with long-term borrowings. Our Group is not expected to have a net current liabilities position.

We strive to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations, we also seek bank borrowings to fund our working capital requirements. We have maintained long-term relationships with various commercial banks in Hong Kong and China and we believe that our existing short-term bank loans will be accepted for renewal upon their maturity, if necessary. Since the beginning of the global financial recession, we have neither encountered major difficulties in securing and/or renewing bank borrowings, nor have we been charged an exceptionally high interest rate on our bank borrowings. In addition, the credit facilities currently available to us cannot, based on the terms and conditions of the relevant bank loan agreements, be tightened or cancelled due to unfavourable financial results of our Group. We expect to finance our operations through a combination of operating cash inflows, proceeds from the Global Offering and/or bank borrowings.

INDEBTEDNESS

Borrowings

As at 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement, we have bank borrowings and finance lease obligations as follows:

	HK$'000
Non-current liabilities	
Bank borrowings – bank loans	82,777
Finance lease obligations	25,441
	108,218
Current liabilities	
Bank borrowings	
– Bank loans	120,690
– Bank overdrafts	4,431
– Trust receipt loans	57,554
Finance lease obligations	21,052
	203,727
Total borrowings	**311,945**

Bank borrowings are secured by the Group's buildings and land use rights, pledged deposits and personal guarantees provided by our directors, Mr. Wong and Ms. Ching. Our Directors confirm that the above personal guarantees will be replaced by corporate guarantee immediately before Listing.

Finance lease obligations are secured by machinery with carrying amounts of approximately HK$73.3 million as at 30 April 2010.

Contingent liabilities

In April 2010, World Fair Hong Kong, one of our subsidiaries incorporated in Hong Kong, received a notice of additional assessment dated 30 March 2010 from the Hong Kong Inland Revenue Department (the **IRD**) demanding additional profits tax in the amount of HK$1.75 million for the

2003/04 tax year. World Fair Hong Kong also received a notice from the IRD of even date requesting an interview in relation to its tax affairs for the tax years from 2003/04 to 2008/09.

The additional tax of HK$1.75 million was not accrued for but treated as a contingent liability in our consolidated financial information for the year ended 31 December 2009 (see Note 38 to the Accountant's Report set out in Appendix I in this 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. World Fair Hong Kong has filed an objection with the IRD against the additional assessment and the IRD has agreed to an unconditional holdover of the assessment amount for the period during which the objection is under consideration, which may or may not be ruled in favour of our Group.

Furthermore, before the IRD completes its review process and any additional tax liabilities be settled, the IRD may issue additional assessments for the 2004/2005 tax year and/or any subsequent tax year(s) before claims relating to the relevant assessment year become statutorily time-barred. As a result, our Group may be subject to additional tax liabilities. Please refer to the section headed "Risk Factors – Risks Relating to our Group – Our Hong Kong subsidiary may be subject to additional tax liabilities" in this prospectus.

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

Save as aforesaid and apart from intra-group liabilities and accounts payable in the ordinary course of business, we did not have any outstanding debt securities or loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities outstanding as at 30 April 2010.

CASH FLOWS

We have financed our operations and growth mainly through a combination of cash from operations and external borrowings. We have used our cash mainly to finance our operations and capital expenditures and to repay our borrowings. As at 31 December 2009, save as disclosed in the section headed "Use of Proceeds" in this prospectus, our Directors are not aware of any material change to the sources of our cash and our use of cash. Our Directors are of the view that as at the Latest Practicable Date, the recent global economic downturn had no material adverse effect on our liquidity position.

Prior to the Listing, we funded our operations principally with revenue generated from our product sales and through bank borrowings. Our principal liquidity and capital requirements were mainly related to the following:

- payment of dividends to our Shareholders;
- costs and expenses related to the operation of our business and procurement of materials and raw materials; and
- capital expenditures for the purchase of equipment.

After the Listing, we expect to meet our liquidity needs from cash generated from our operations, and debt and equity financing, including the proceeds of the Global Offering.

CAPITAL EXPENDITURES

Our capital expenditure requirements primarily relate to the purchase of plant and equipment. We have funded our historical capital expenditures through cash from our operations, bank borrowings and finance lease obligations. The following table sets out our capital expenditures during the Track Record Period.

	Year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total capital expenditures	37,888	93,871	133,295

During the Track Record Period, we incurred capital expenditures mainly as a result of our purchase of property, plant and equipment.

We anticipate that the funds needed to finance our capital expenditures will be financed by cash generated from our operations, bank borrowings, finance lease obligations, as well as net proceeds from the Global Offering. If necessary, we may raise additional funds on terms that are acceptable to us.

Our current plans with respect to future capital expenditures may be subject to change based on the implementation of our business plan, including potential acquisitions, market conditions and our outlook on future business conditions. As we continue to expand, we may incur additional capital expenditures.

Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, as well as economic, political and other conditions in the PRC, Hong Kong and other jurisdiction(s) in which we operate.

CAPITAL COMMITMENTS

We had the following future aggregate capital commitments for property, plant and equipment as at the dates presented in the table below:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	10,726	1,105	4,466

OPERATING LEASE COMMITMENTS

We lease various offices and warehouses under non- cancellable operating lease agreements.

As at the dates presented, the future aggregate minimum lease payments of our Group under non-cancellable operating leases were as follows:

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	3,164	4,299	5,287
Later than one year and not later than five years	–	6,727	7,970
Later than five years	–	2,229	1,126
	3,164	13,255	14,383

DIVIDEND AND DIVIDEND POLICY

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

- financial results of our Company;
- shareholders' interests;
- general business conditions and strategies;
- our Company's capital requirements;
- the payment by our subsidiaries of cash dividends to our Company;

- possible effects on liquidity and financial position of our Company; and

- other factors our Board may deem relevant.

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

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and factors described above, we currently expect to distribute as dividends not more than 30% of our net profit after tax for the years commencing on or after the Listing. As our Company has not been listed for the whole of the year ending 31 December 2010, the dividend payment for the year ending 31 December 2010 will be pro-rated based on the period from the Listing Date to 31 December 2010.

RECENT DEVELOPMENTS

The pressure in global capital and credit markets began in the second half of 2007 continued and substantially increased during the second half of 2008. Concerns over the availability and cost of credit, the U.S. mortgage market, energy costs, inflation, and a declining U.S. real estate market have contributed to increased volatility and diminished expectations for the global economy and the financial markets going forward. These factors, combined with declining business and increased unemployment in the United States and Europe, have precipitated a worldwide recession. The PRC and international equity markets have also been experiencing heightened volatility. These events and the continuing upheavals have resulted in an economic slowdown, which has in turn affected corporate spending priorities.

We believe that we managed to continue maintaining profitability despite the economic downturn primarily as a result of our experienced management team, proven track record in providing timely and quality products to our customers in addition to certain cost-saving measures.

PROPERTY INTERESTS

As at 31 March 2010, our properties held under property and equipment were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV in this prospectus. The net revaluation surplus, representing the excess of market value of the properties over their carrying values, has not been included in our consolidated financial information as at 31 December 2009 as our Group's property interests are stated at cost less accumulated depreciation and accumulated impairment losses.

The table below set for the reconciliation of aggregate amounts of property interests from our consolidated financial information as of 31 December 2009 and 31 March 2010 to the valuation amount of our Company's property interests as of 31 March 2010:

	HK$'000
Net book value of our property interests as of 31 December 2009	72,194
Movements for the three months ended 31 March 2010	
– Additions	423
– Depreciation	(488)
Net book value of our property interests as of 31 March 2010	72,129
Valuation surplus as of 31 March 2010	3,438
Valuation as of 31 March 2010 per Appendix IV in this prospectus(Note)	75,567

Note: The amount has been translated from RMB into HK dollars at a rate of RMB0.8771 to HK$1.00.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in our consolidated financial statements included in the Accountant's Report set out in Appendix I in this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or such terms no less favourable to us than terms available to Independent Third Parties and which were fair and reasonable and in the interest of our Shareholders as a whole.

For details of related party transactions, please refer to Note 37 to the Accountant's Report in Appendix I in this prospectus.

DISTRIBUTABLE RESERVES

As at 31 December 2009, our Company had a share premium of HK$34,750,000, which is available for distribution to our shareholders. Our Group's retained earnings as at 31 December 2009 amounted to HK$234,942,000.

WORKING CAPITAL

Taking into account the financial resources available to us, including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

OFF BALANCE SHEET TRANSACTIONS

Except for the commitments and contingent liabilities set forth above, we have not entered into any material off-balance sheet transactions or arrangements as at 31 December 2009.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, we are not aware of any circumstances that would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 December 2009 (being the date of our latest audited consolidated financial results as set out in Appendix I in this prospectus).

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as at 31 December 2009 as if the Global Offering had been taken place on 31 December 2009.

The unaudited pro forma statement of adjusted net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at 31 December 2009 or any future date following the Global Offering. It is prepared based on our consolidated net assets as at 31 December 2009 as set out in the Accountant's Report in Appendix I, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report as set out in Appendix I of this prospectus.

	Audited consolidated net tangible assets of the Group attributable to equity holders of our Company as at 31 December 2009(1)	**Estimated net proceeds from the Global Offering**(2)	**Unaudited adjusted net tangible assets**	**Pro forma adjusted net tangible assets per share**(3)(4)
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$1.30 per Share	230,724	843,215	1,073,939	0.37
Based on an Offer Price of HK$1.70 per Share	230,724	1,117,293	1,348,017	0.47

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of our Company as at 31 December 2009 is extracted from the Accountant's Report set out in Appendix I in this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of our Company as at 31 December 2009 of HK$242,107,000 with an adjustment for the intangible assets of HK$11,383,000 as at 31 December 2009.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.30 and HK$1.70 per Share, respectively, after deduction of estimated related fees and expenses, and do not take into account of any Shares that may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

(3) The unaudited pro forma adjusted net tangible assets per share are determined after the adjustments as described in Note (2) above and on the basis that 2,870,000,000 shares were in issue assuming that the Global Offering has been completed on 31 December 2009 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

(4) The unaudited pro forma net adjusted tangible assets of the Group does not take into account the dividend of approximately HK$15.4 million declared by the Board in March 2010. The unaudited pro forma net tangible assets per share would have been HK$0.37 and HK$0.46 per share based on the Offer Price of HK$1.30 and HK$1.70 respectively, after taking into account the declaration of the dividend in the sum of approximately HK$15.4 million.

(5) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2009.

(6) As of 31 March 2010, the Group's properties held under property and equipment were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV in this prospectus. The net revaluation surplus, representing the excess of market value of the properties over their carrying values, has not been included in the Group's consolidated financial information as at 31 December 2009. The above adjustments do not take into account of such revaluation surplus. Had the properties been stated at such valuation, an additional depreciation and amortisation of HK$101,000 per annum in respect of the revaluation surplus, before income taxes, would be charged against the consolidated income statement.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

Forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010[(1) & (2)]	Not less than HK$103.3 million
Unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010[(3)]	Not less than HK$0.04

Notes:

(1) The bases and assumptions on which the above consolidated profit forecast for the six months ending 30 June 2010 has been prepared are summarised in Appendix III in this prospectus.

(2) The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 based on unaudited management accounts of our Group for the four months ended 30 April 2010 and a forecast of the consolidated results of our Group for the remaining two months ending 30 June 2010. The forecast has been prepared based on the accounting policies consistent in all material respects with those presently adopted by our Group as set out in Note 4 of Section I of the Accountant's Report, the text of which is set out in Appendix I in this prospectus.

(3) The calculation of unaudited pro forma forecast earnings per Share for the six months ending 30 June 2010 is based on the forecast consolidated profit attributable to equity holders of our Company for the six months ending 30 June 2010 and on the basis that 2,870,000,000 Shares were in issue during the entire period and assuming that the Global Offering had been completed on 31 December 2009. The calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

(4) We have undertaken to the Stock Exchange that our interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of financial risks, namely, market risks (including foreign exchange risk and interest rate risk), credit risks and liquidity risks, in the normal course of business. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. Risk management is carried out by our senior management according to policies approved by the Board.

Our senior management regularly manages our financial risks. We closely monitor our risk exposure to changes in foreign currency exchange rates and may consider entering into foreign forward exchange contracts from time to time so as to better manage our foreign exchange exposure, where necessary.

Market risks

Foreign exchange risk

We operate principally in Hong Kong and in the PRC. We are exposed to foreign exchange risk primarily with respect to Hong Kong dollar and RMB denominated transactions. Foreign exchange risk arises where future commercial transactions and recognised assets and liabilities are denominated in currency that is not our functional currency. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2007, 2008 and 2009, our borrowings were denominated in Hong Kong dollar, US dollar and RMB. Since the Hong Kong dollar is pegged to the US dollar, we believe that the exposure of transactions denominated in Hong Kong dollars which are entered into by us to be insignificant.

As at 31 December 2007, 2008 and 2009, if RMB had strengthened/weakened by 5% against the US dollar with all other variables held constant, our post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been higher/lower by HK$236,000, HK$218,000 and HK$1,452,000, respectively, mainly as a result of foreign exchange gains/losses on revaluation of RMB denominated receivables and payables.

Our Group manages our exposure to foreign currency transactions by monitoring the level of foreign currency receipts and payments. We ensure that our net exposure to foreign exchange risk is kept at an acceptable level from time to time. We also regularly review our portfolio of suppliers and the currencies in which the transactions are denominated so as to minimise our exposure to foreign exchange risk.

Interest rate risk

Except for cash held at banks and pledged bank deposits, we have no significant interest bearing assets. Our income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2007, 2008 and 2009, if interest rates on cash held at banks and pledged bank deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK$158,000, HK$487,000 and HK$908,000 respectively higher/lower, mainly as a result of higher/lower interest income on pledged bank deposits.

Our interest rate risk arises from bank borrowings which are interest bearing at floating rates and are repayable based on the bank repayment schedule. Borrowings issued at floating rates expose us to cash flow interest-rate risk. Borrowings issued at fixed rates expose us to fair value interest-rate risk.

As at 31 December 2007, 2008 and 2009, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 would have been approximately HK$630,000, HK$976,000 and HK$2,426,000 higher/lower, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

We are not exposed to any fair value interest-rate risk as we do not hold any fixed rates borrowings as at 31 December 2007, 2008 and 2009.

Credit risks

Credit risk mainly arises from trade and other receivables, financial assets at fair value through profit or loss, amounts due from related parties, pledged bank deposits and cash and cash equivalents.

As at 31 December 2007, 2008 and 2009, trade receivables from Synaptics accounted for approximately 82%, 99% and 54% of our trade receivables, respectively. We have policies in place to ensure that sales of products are made to customers with an appropriate credit history. We normally conduct credit checks on new customers and may require them, and other customers with credit histories that we are not satisfied with, or to provide us with a letter of credit when placing orders. In order to minimise our credit risk, our management has implemented internal control procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Based on our historical experience in the collection of trade and other receivables and amounts due from related parties, our Directors and the management are of the opinion that adequate provisions have been made for uncollectible receivables.

Our financial assets, which we carry at fair value, are placed with a financial institution which is independently rated with a high credit rating. Our Directors do not expect any losses from non-performance by this financial institution as it has no history of default.

Our cash and cash equivalents and pledged bank deposits are deposited in over ten financial institutions, which management believes are reputable and without significant credit risk.

Liquidity risks

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and an ability to settle our payables as they fall due. Due to the dynamic nature of our underlying businesses, our senior management aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of our liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flow. We aim to maintain flexibility in funding while minimising our overall costs by keeping a mix of committed and uncommitted credit lines available.