
BUSINESS

SUMMARY

We are a leading provider of capacitive touch pads by shipment volume for use in notebook computers. Touch pads are found essentially in the majority of notebook computers. According to a report issued by IDC which is not commissioned by our Company or the Sole Sponsor, shipment of notebook computers during 2006 to 2009 amounted to approximately 499.0 million units. During the same period, our shipment of capacitive touch pads amounted to approximately 245.8 million units.

We provide capacitive touch products, including capacitive touch pads, to Synaptics, a global leader of capacitive touch pads. Sales of touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9%, 79.4% and 57.9% of our annual revenue respectively for the three years ended 31 December 2009 and the six months ended 30 June 2010. Please refer to the “Risk factors” and “Relationship with Synaptics” sections in this prospectus for further details.

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

During the Track Record Period, we focused on manufacturing capacitive touch pads as well as providing our customers value-added advice and solutions with respect to our products through our engineering design and assembly processes. Our major customer of capacitive touch products, Synaptics, is a supplier of human interface solutions to ODMs/OEMs of notebook computers and consumer electronics.

We have, through years of operating as a manufacturing services provider, acquired the requisite experience in SMT and COB/COF production processes and capability to produce a range of consumer electronic products. We consider our diversification into non-touch products to be a organic expansion of our SMT and COB/COF production capability into markets with significant growth potentials. We commenced the sale of fingerprint biometric devices in July 2008 by sourcing fingerprint sensors externally and manufacturing fingerprint biometric devices for use in notebook computers. We also provide engineering design support to our customers in the course of production.

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

The non-touch products, namely fingerprint biometric devices, lighting source products and wireless charging devices, carried higher gross profit margins (approximately 36.7%, 37.4% and 29.9% for the six months ended 30 June 2010, respectively) when compared to capacitive touch products (approximately 23.7% for the six months ended 30 June 2010). For details of the respective revenue and gross profit margins of our products, please refer to the section headed “Financial information” in this prospectus.

BUSINESS

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

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
Revenue from	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000 (unaudited)	% of total	HK\$'000	% of total
Capacitive touch products	614,727	91.2%	722,158	96.3%	689,364	77.6%	308,098	94.1%	383,267	57.3%
Fingerprint biometric devices	–	0.0%	69	0.0%	42,281	4.8%	3,597	1.1%	67,212	10.1%
Lighting source products ^{Note 1}	40,962	6.1%	4,849	0.6%	17,775	2.0%	519	0.2%	42,279	6.3%
Wireless charging devices	–	0.0%	–	0.0%	102,431	11.5%	–	0.0%	122,896	18.4%
Others ^{Note 2}	18,604	2.7%	22,712	3.1%	36,497	4.1%	15,141	4.6%	53,051	7.9%
Total	674,293	100%	749,788	100%	888,348	100%	327,355	100.0%	668,705	100.0%

Notes:

(1) Lighting source products consist of plasma light projectors and plasma street lamps.

(2) Other products include automotive devices, medical equipment and electrical components for mining/drilling equipment.

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

Product categories	Products	Product descriptions	Examples of commercial applications
Capacitive touch products	Capacitive touch pad	● A capacitive touch component that includes a PCB with controller IC, which can be installed into notebook computers and consumer electronics	● Notebook computers
	Multi-media button	● A button to enable on/off commands by a finger's touch. Its opacity allows it to be placed on objects such as glass or windshields	● Handheld electronic devices ● Electrical appliances ● Computer keyboards

BUSINESS

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

OUR PRODUCTS

Capacitive touch products

We have been in the capacitive touch product market for over 10 years. During the Track Record Period, we produced capacitive touch products which included capacitive touch pads, multi-media buttons and capacitive touch screen controllers. Amongst our various capacitive touch products, capacitive touch pads are our core product and was our revenue driver during the Track Record Period. From 2006 to 2009, we sold approximately 245.8 million capacitive touch pads in total.

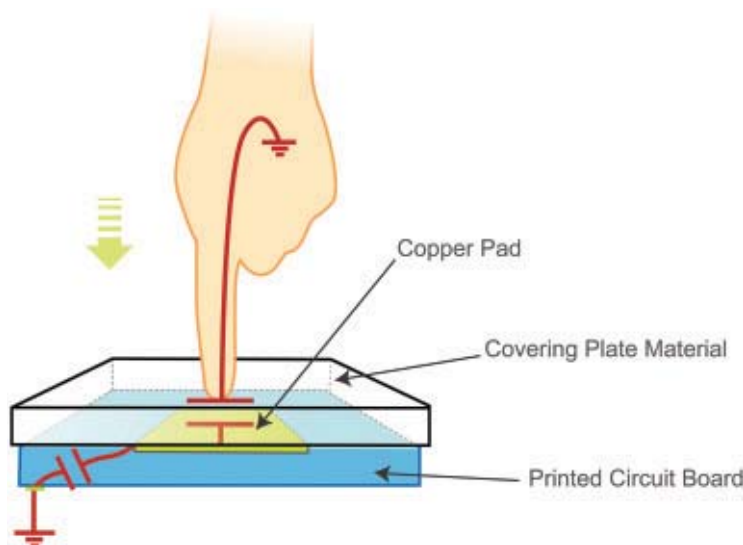
The sales of capacitive touch pads and other products to Synaptics accounted for approximately 93.4%, 98.9%, 79.4% and 57.9% of our total revenue for each of the three years ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Our capacitive touch pads are sold to Synaptics for onward delivery to the manufacturers of notebook computers of international brand names for further processing. Although ODMs/OEMs of notebook computers and the end customers of the capacitive touch pad supply chain (i.e. consumer electronics brands) are not our direct contractual customers for capacitive touch pads, we work closely with these industry players through qualification processes and regular audits in order to ensure that their specifications and expectations in our products are met. Through such contact, we have established long term relationships directly with them and provide them capacitive touch pads which satisfy their specific requirements.

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

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

The following diagram illustrates how capacitive touch technology works:



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

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

BUSINESS

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

- Durable
- Allows accurate positioning
- Supports “multi-touch”, the growth of which is an important trend in the capacitive touch market
- Permits slimmer designs
- Offers higher reliability and resolution while utilising less energy

We are able to produce capacitive touch pads of different sizes, thicknesses, electrical interfaces and functionality requirements in accordance with our customers’ specifications. In order to ensure our products satisfy Synaptics’ technical and functional requirements and to protect its proprietary technology and technical know-how, in line with the usual industry practice for manufacturing services providers to share and utilise intellectual property rights of their customers in providing manufacturing services, we have a non-exclusive, non-transferable, and royalty-free licence agreement with Synaptics, which authorises us to utilise Synaptics’ proprietary ICs, designs, drawings, specifications and software solely for use in the production of its touch products. The consigned ICs are shipped to us directly from the IC suppliers and payment for the ICs is settled by Synaptics directly with its IC suppliers.

Although we rely on Synaptics’ technologies and patents in that we are consigned with ICs, and produce our capacitive touch pad products in accordance with specifications and other instructions by Synaptics, we regard ourselves more as Synaptics’ manufacturing partner than a mere sub-contractor as we provide our customers value-added advice and solutions with respect to our products through our engineering design and assembly processes. Based on our production know-how and experience, we provide suggestions to our customers such as PCB modifications, use of alternative components, and component positioning with the aim of achieving higher production efficiency and cost advantages. In terms of procurement, there are other key components of capacitive touch pads, such as connectors, PCBs, and mylars, which instead of being provided with or consigned by our customer, we source from distributors in the market. Further details are set forth in the section headed “Relationship with Synaptics” in this prospectus.

We produce the following capacitive touch products for our customers:



Capacitive touch pad for notebook computers

- **Capacitive touch pads**

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

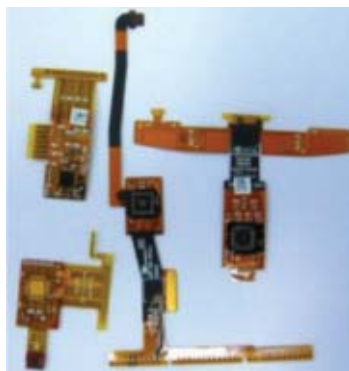
- **Multi-media buttons**



Multi-media button for notebook computers

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

- **Capacitive touch screen controllers**



Touch screen controllers

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

According to the iSuppli Touch Report, the overall market size of capacitive touch pads is estimated to increase from approximately 446 million units in 2010 to approximately 775 million units in 2013, representing a CAGR of approximately 20.2%. For touch screen products, according to DisplaySearch, unit shipments of touch screen modules are expected to increase from approximately 483 million units in 2009 to approximately 1.4 billion units by 2015, representing a CAGR of approximately 19.4%.

Despite the fact that touch pads have existed for more than a decade, touch screens are relatively new products. Based on the iSuppli Touch Report's estimated growth rate, our Directors believe that the product life-cycles of both touch pads and touch screens are still at their growth stage and the overall market size will increase in the coming years. In particular, given the comparatively lower costs of capacitive touch pads compared to touch screen products and the forecasted increase of the market size of capacitive touch pads at a CAGR of approximately 20.2% between 2010 and 2013, according to estimates in the iSuppli Touch Report, our Directors do not consider that the market for capacitive touch pads will diminish nor be replaced by touch screen modules in the foreseeable future. We also believe that the capacitive touch pad and capacitive touch screen markets are different in that capacitive touch pads and capacitive touch screens can be used in different electronic products. Capacitive touch pads are mainly used in notebook computers and multi-media players, whilst capacitive touch screens can be applied to, among other things, mobile phones, televisions and desktop computer monitors.

In the event that capacitive touch pads are replaced by other products and our capacitive touch pad business becomes obsolete, which our Directors believe to be unlikely in the near future, we believe that given our production know-how and experience in SMT and COB/COF production, together with the technical mobility of our production facilities, we will be able to capitalise on our ability to produce other capacitive touch products, such as capacitive touch screen controllers and multimedia buttons, and other products including fingerprint biometric devices, wireless charging

BUSINESS

devices and lighting source products. For details, please refer to the section headed “Business – Production – Production facilities” below in this section.

Fingerprint biometric devices

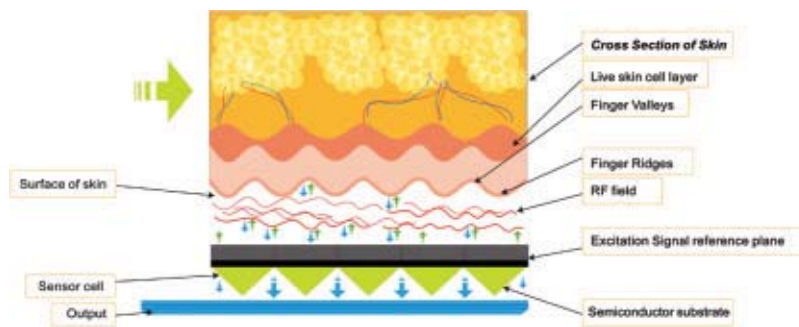
We believe we are also one of the key providers of fingerprint biometric products (in terms of volume) for use in notebook computers. According to iSuppli Corporation, shipments for fingerprint sensors for portable and handheld computers are expected to be approximately 10.5 million units in 2010, whereas shipments of fingerprint sensors for use in notebook computers made by our Group have reached approximately 3.5 million units for the nine months ended 30 September 2010. 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 manufacturing fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we sold a portion of our fingerprint biometric devices. In addition, we have designed and developed a series of fingerprint biometric products, under our own “C-touch” brand using fingerprint sensors sourced externally from the same customer, which have yet to be commercialised.

Our plan is to sell our “C-touch” fingerprint products through distributors in Asia and Europe, as well as to participate in trade exhibitions abroad, and we expect our first shipment will be made to a distributor in Japan in December 2010. We are also in negotiation with our existing personal computer ODMs/OEMs customer network to bundle our products with the personal computers, which we expect to be launched in second quarter of 2011. We intend to further penetrate the market by cooperating with financial institutions and flash memory manufacturers by producing “C-touch” fingerprint memory dongle to replace the traditional password or access card for authorisation purposes. Finally, we will explore the use of our fingerprint products in home and car locking system, as well as for credit card authorisation. Our aim is to provide customers with affordable and convenient devices to protect personal data against possible loss or leakage while using consumer electronics. The capital expenditure requirements to commercialise our “C-touch” products to date are minimal. As stated in the section headed “Use of proceeds” in this prospectus, we intend to apply approximately 26% of the net proceeds from the Global Offering for the research and development of our products, including the further development of our own “C-touch” brand.

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

BUSINESS

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



Radio frequency (or passive capacitive) – *Radio frequency (RF) field sensors are built based on direct current capacitive sensor principles. The finger is used as both the charge plate and the dielectric. Semiconductor-based sensors emit small RF signals to detect an image of the fingerprint ridge and valley pattern, thus capturing sharp and clear fingerprint patterns from the live layer of skin just beneath the surface. A small alternating current signal is injected into the finger and then is measured by an array of sensors directly below the fingerprint surface. By going sub-surface, the sensor reads the live layer of skin.*

During the Track Record Period, we manufactured fingerprint biometric devices for (i) Validity Sensors Inc., a customer which supplied us with the fingerprint sensors for assembly and incorporation into notebook computers, and (ii) international ODMs/OEMs of notebook computers. Our Group has been granted a non-exclusive and royalty-free software licence for a perpetual term by Validity Sensors Inc. for use in our assembly process of fingerprint biometric devices. We have yet to possess the capability to produce fingerprint sensors, thus, in respect of the fingerprint devices we produce for international ODMs/OEMs of notebook computers, our Group purchases fingerprint sensors from the said customer which is an “approved vendor” of fingerprint sensors for international notebook manufacturers.

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

We commenced commercialisation of our fingerprint biometric devices in July 2008 and since then we have seen the growth of this product segment. In 2009, our Group began to make direct shipment of fingerprint devices to various ODMs/OEMs of notebook computers. Our revenue from the fingerprint biometric devices increased significantly from approximately HK\$69,000 for the year ended 31 December 2008 to approximately HK\$42.3 million for the year ended 31 December 2009, and HK\$67.2 million for the six months ended 30 June 2010, respectively, which constituted approximately 0.01%, 4.8% and 10.1% of our revenue for the respective periods.

Our fingerprint products are low cost solutions, coupled with reliability, and feature ESD protection. We believe growing consumer interest in this market and potential for profit growth justify our continued efforts in this product segment. We further believe that authentication ATMs with biometric features, peripheral computer equipment (which includes USB drives, keyboards, external hard drives, and standalone fingerprint sensor pads for desktops), mobile phones with biometric applications and password-free access control (i.e. secure access technologies that do not

BUSINESS

require entry of keys, password or PIN numbers) are important and possess growth potential in the evolving fingerprint sensor market.

Lighting source products (plasma light projectors and plasma street lamps)

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

We have been granted a non-exclusive and royalty-free licence by our plasma light projector customer, Luxim, for use of certain technologies in providing manufacturing services for Luxim. With the materials purchased from approved suppliers and certain tooling consigned by Luxim, we are licensed to manufacture, test and assemble plasma light projectors for Luxim in accordance with its specifications. We are also licensed to use its software and product technology in the process. The licensed technology enables us to produce a high intensity light with higher efficiency and longer life span than traditional lighting.

In 2009, we diversified our lighting source products to include plasma street lamps by adopting plasma lighting technology we applied in the manufacturing of plasma light projectors. We started selling plasma street lamps to a customer in November 2009. Our sales to such customer increased in the first half of 2010. In addition, we received orders placed by another customer and also entered into non-binding letters of intent for the sale and purchase of plasma street lamps with various potential customers. We intend to further introduce such technology to other customers, including government authorities and city bureaus in the PRC for wider usage in street lamps in towns and cities in China.

The revenue we derived from the lighting source product segment in the Track Record Period was approximately HK\$41.0 million, HK\$4.8 million, HK\$17.8 million and HK\$42.3 million, respectively, which accounted for 6.1%, 0.6%, 2.0% and 6.3% of our revenue, respectively. Our focus in this product segment was initially on the production of plasma light projectors, which we later shifted to plasma street lamps in the course of the year ended 31 December 2009. We have not entered into any long-term agreements with our customers for our plasma street lamps.

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

Wireless charging devices

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

Wireless charging utilises the technology of “proximity inductive power transfer”, which involves the transfer of energy via magnetic induction between two magnetic coils placed in the proximity of one another. The power transmitter in the wireless charging device detects the presence

BUSINESS

of a suitable power receiver in the proximity and the power receiver (either connected externally or installed in the mobile device) digitally signals the power transmitter its power needs. With the connection of a power receiver, our wireless charging devices enable battery charging for a range of consumer electronic devices, including mobile phones, multi-media players, personal digital assistant devices, handheld electronic games and digital cameras, which are either equipped with power receivers or externally connected to the power receivers, by placing them on the surface of the flat-surfaced or foldable wireless charging device, without the need to connect electrical wires between the mobile devices and the power sockets directly. The flat-surfaced or foldable wireless charging device would need to be connected to power sockets for electricity.

We commenced shipment of our wireless charging devices in August 2009 and revenue from the wireless charging segment for the year ended 31 December 2009 and the six months ended 30 June 2010 amounted to approximately HK\$102.4 million and HK\$122.9 million, respectively, which constituted approximately 11.5% and 18.4% of the revenue of our Group for the respective periods. During the Track Record Period, we produced wireless charging devices for only one customer, HoMedics Group, which supplied us with the necessary components for our production. Although we do not own the relevant technology for wireless charging, we are involved in the product design aspects of production in relation to battery size, capacity and other engineering support in the course of production and assembly of wireless charging devices for this customer. As such, we consider ourselves to be a co-development partner for our customer and not a mere sub-contractor of wireless charging devices. The finished products are shipped or transported overseas to countries including the United States, Canada, the United Kingdom and Italy. We aim to develop this business segment and increase our marketing efforts in this market by exploring further business opportunities with various distributors in Asia and potential customers. We are in the process of identifying local representatives for opening distribution channels in the Asian market, as well as working closely with telecommunications companies to promote our wireless charging devices.

Although our business relationship with some of our non-touch products customers is relatively short and we have not entered into any long term agreements with them, we aim to grow our business relationship with these customers in the future on a long-term basis. Our Directors believe that there will be increasing demand for wireless charging devices and we expect this product segment to be of an increasing significance to our business going forward.

Others

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

Although these products were not a main source of our revenue during the Track Record Period, they offered valuable opportunities to diversify our customer base. The revenue derived from the production of these other products during the Track Record Period amounted to approximately HK\$18.6 million, HK\$22.7 million, HK\$36.5 million and HK\$53.1 million, respectively, which constituted approximately 2.7%, 3.1%, 4.1% and 7.9% of our revenue for the respective periods.

PRODUCTION

Production facilities

Our production and R&D facilities are located in Heshan City, the PRC. We believe that Heshan City is a strategic location for us as it is well connected to the rest of China by expressways,

BUSINESS

a seaport and four nearby airports, enabling us to have easy access to the rest of China as well as overseas markets. In addition, Heshan City is also in close proximity to our suppliers, enabling us to react swiftly to customer demands for products, technology consulting services, and to minimise transportation costs and delivery time.

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

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

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

We have obtained TL 9000/ISO 9001:2000, ISO 13485:2003, ISO/TS 16949:2002, OHSAS 18001:2007 and IECQ accreditations from SGS and IECQ for our products and management systems in Heshan City. In addition, the clean-room facilities in our production lines are maintained at a class 10K (≥ 0.5 micron), i.e. at most 10,000 particles of size 0.5 μm or larger permitted per cubic foot of air, which is approximately equivalent to ISO Class 7. Moreover, with respect to our environmental system, our Group has received an ISO 14001:2004 accreditation from SGS in November 2006, and we have also been certified as a “green partner” by a consumer electronics brand and a recognised body.

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

Although during the Track Record Period, the production of capacitive touch pads for our major customer, Synaptics, remained our revenue driver and the bulk of our property, plant and equipment were committed to this purpose, most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry. As such, our Directors believe that our production facilities can be used interchangeably to produce other capacitive touch products and consumer electronics that involve assembly of ICs, connectors,

BUSINESS

capacitors, resistors and other similar electronics components. In the event that Synaptics reduces its sales orders in the future, we believe that our production facilities and equipment are capable of being used for the production of other capacitive touch products and electronic products for other customers. In relation to our production facilities, only minor adjustments, which include changing production and testing software, and conveying tooling and finalising assembly processes, would be required to accommodate other specific requirements from other customers. These adjustments can be completed in-house within a reasonably short period of time and at nominal costs. With regard to our production staff, as most of our production process is automated, they are mainly responsible for loading and off-loading assembly units, transporting finished products and conducting visual inspection. As such, our production staff will need only brief training sessions and be trained within a reasonably short period of time at nominal costs.

Production processes

Given the technical complexity involved in our business and to ensure compliance with the component functional specifications from our customers, our Directors believe that it is important that we are equipped with technologically advanced machinery and equipment for production. In this respect, we engage in surface mount technology (SMT) and chips on board (COB)/chips on flex (COF) production solutions to develop and manufacture capacitive touch products, including capacitive touch pads, multi-media buttons and capacitive touch screen controllers; whereas for our fingerprint biometric devices and wireless charging devices, we engage in SMT production solution only. We have deployed machinery imported from around the world, including wire bonding machines and SMT machines from Japan, and testers from the United States for our various production processes. Synaptics has specifically requested us to acquire certain testing equipment for the testing of our capacitive touch pads. The equipment is not tailored specifically for testing Synaptics' products and in the event our business relationship with Synaptics ceases in the future, the testing equipment will, after only minor adjustments, be used for testing our other products over a reasonably short period of time.



Surface Mount Technology (SMT) operations



Chip on Board (COB) operations

BUSINESS

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

	Approximate output for the year/period (in million units)	Estimated maximum output for the year/period (in million units)	Approximate utilisation rate for the year/period
SMT lines			
Year ended 31 December 2007	66.0	113.6 ¹	58.1%
Year ended 31 December 2008	83.9	136.5 ²	61.5%
Year ended 31 December 2009	91.3	183.4 ³	49.8% ⁴
Six months ended 30 June 2010	61.4	104.8 ⁵	58.6% ⁵

Notes:

- 1 The estimated maximum output in 2007 is calculated based on 17 SMT lines from January 2007 to August 2007 and 18 SMT lines from September 2007 to December 2007, operated 26 days per month, 21 hours per day, at a speed of 1,000 units on average per hour.
- 2 The estimated maximum output in 2008 is calculated based on 20 SMT lines from January 2008 to September 2008, 22 SMT lines in October 2008 and 24 SMT lines from November 2008 to December 2008, operated 26 days per month, 21 hours per day, at a speed of 1,000 units on average per hour.
- 3 The estimated maximum output in 2009 is calculated based on 24 SMT lines in the first half of 2009 and 32 SMT lines in the second half of 2009, operated 26 days per month, 21 hours per day, at a speed of 1,000 units on average per hour.
- 4 The relatively low utilisation rate for the year ended 31 December 2009 was mainly due to the additional 10 machines we purchased in the second half of 2009 in anticipation of the continuing increase in demand for capacitive touch products, as a result of which the additional SMT lines have not yet been fully utilised to their optimum capacities.
- 5 The estimated maximum output for the six months ended 30 June 2010 is calculated based on 32 SMT lines, operated 26 days per month, 21 hours per day, at a speed of 1,000 units on average per hour.

	Approximate actual output for the year/period (in million units)	Estimated maximum output for the year/period (in million units)	Approximate utilisation rate for the year/period
COB/COF lines¹			
Year ended 31 December 2007	39.1	59.8 ²	65.4%
Year ended 31 December 2008	59.1	76.5 ³	77.2%
Year ended 31 December 2009	69.1	102.2 ⁴	67.6% ⁵
Six months ended 30 June 2010	41.9	51.1 ⁶	82%

Notes:

- 1 There were five categories of machines in each production line, each category of machines operated at different speeds and capacities. For the purposes of calculating the estimated maximum output, we have taken the type of machine with the longest production time in the COB/COF line for our calculations. The calculations are based on the assumption that the machines operated 21 hours per day and 26 days per month.

BUSINESS

- 2 *In 2007, the estimated maximum output is calculated based on: 28 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour from January 2007 to April 2007; 31 units of GT machine, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour from May 2007 to August 2007; and 43 units of wire bonding machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 240 units per hour from September 2007 to December 2007.*
- 3 *In 2008, the estimated maximum output is calculated based on: 43 units of wire bonding machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 240 units per hour from January 2008 to June 2008; 36 units of GT machine, each operated at a speed of 290 units per hour in July 2008; 40 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in August 2008, 43 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in September 2008; 46 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in October 2008; 51 units of GT machine, being the machine with the longest production time in the COB/COF line, each operated at a speed of 290 units per hour in November 2008; and 54 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 289 units per hour in December 2008.*
- 4 *In the year ended 31 December 2009, the estimated maximum output is calculated based on 54 units of GT machines, being the machine with the longest production time in the COB/COF line, each operated at a speed of 289 units per hour from January 2009 to December 2009.*
- 5 *The relatively low utilisation rate for the year ended 31 December 2009 was mainly due to the additional 10 machines to be used in the extra eight SMT lines we purchased in the second half of 2009 in anticipation of the continuing increase in demand of capacitive touch products, as a result of which the additional SMT lines have not yet been fully utilised to their optimum capacities.*
- 6 *For the six months ended 30 June 2010, the estimated maximum output is calculated based on 54 units of GT machines, being the machine with the longest production time in COB/COF line, each operated at a speed of 289 units per hour.*

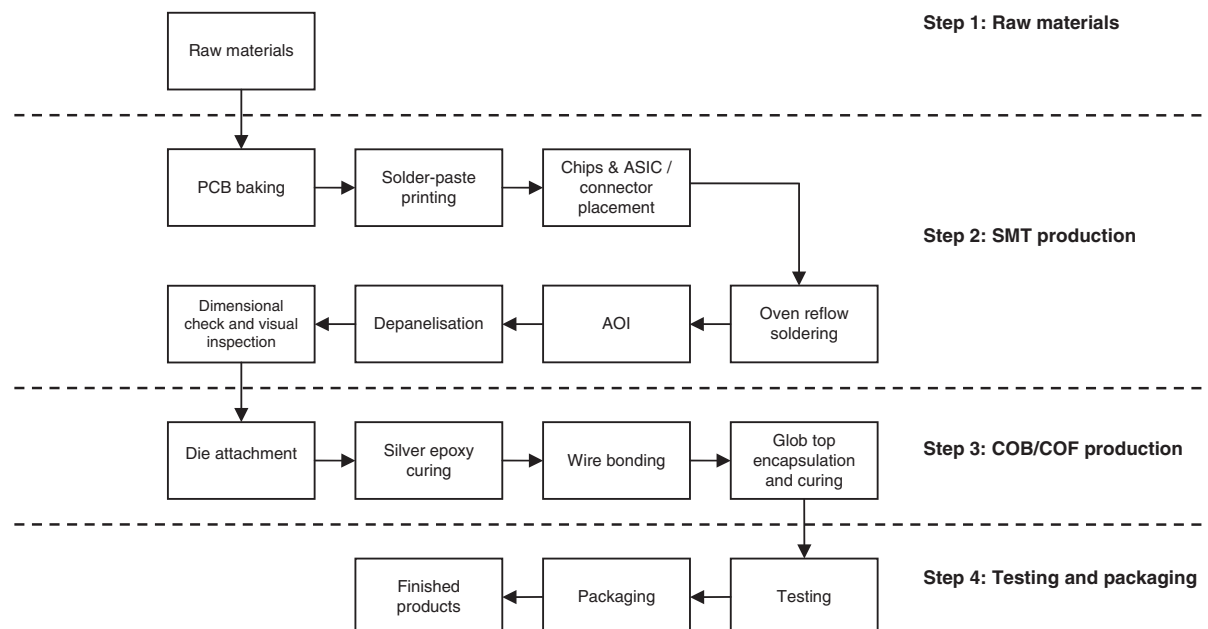
Whilst our production capabilities satisfied the relevant levels of demand during the Track Record Period, in anticipation of the continuing increase in demand of capacitive touch products, coupled with our plans to diversify our product mix to further expand our businesses of fingerprint biometric devices,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

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

BUSINESS

Capacitive Touch Products

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



Step 1 – Raw materials

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

Step 2 – SMT production

PCB baking

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

Solder-paste printing

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

BUSINESS

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

Chips & ASIC/connector placement

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

Oven reflow soldering

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

AOI

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

Depanelisation

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

Dimensional check and visual inspection

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

Step 3 – COB/COF production

Die attachment

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

Silver epoxy curing

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

BUSINESS

Wire bonding

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

Glob top encapsulation and curing

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

Step 4 – Testing and packaging

Testing

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

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

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

Fingerprint biometric devices and wireless charging devices

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

Our fingerprint biometric devices and wireless charging devices undergo similar production processes as those set out above with respect to capacitive touch products, except for COB/COF production, which is not required in the production of fingerprint biometric devices and wireless charging devices. After completion of the SMT production process, our fingerprint biometric devices will go through various testings before they are packaged for shipment and our wireless charging devices will go through the assembly of the PCBs to the plastic housings. These products will then undergo various testings before they are packaged into finished products.

BUSINESS

Plasma street lamps

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

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

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

RESEARCH AND DEVELOPMENT

We started our business as a contract manufacturing services provider of primarily capacitive touch pads utilising the intellectual properties and underlying patents and technologies licensed from our customers. As technology and market expectations have changed in recent years, we aim to differentiate ourselves from other traditional manufacturers and we have progressed further in developing our own R&D capabilities and devoting additional resources in technological advancement. In the last two years, our R&D team has achieved technological breakthroughs in developing various new fingerprint applications and standalone product designs. Such breakthroughs have included the development of fingerprint mouse and keyboard, fingerprint scanner with LED indicator, USB fingerprint dongle, "Touch and Lock", "Multi Touch Lock" and SecuButton™, the majority of which we have obtained or applied for patent registrations in Hong Kong, the PRC and the United States.

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

Our R&D team is responsible for exploring and evaluating potential new products to be developed and manufactured by us. In the course of their evaluation of potential new products, the team takes into account various factors, including whether a potential new product constitutes a synergy match with our existing technology. As part of our strategy, we would only develop products to which we are capable of adding value by utilising our SMT and COB/COF experience and our in-house R&D capabilities. This enables us to develop and maintain long term relationships with our customers. Prior to developing a new product, we would engage in a design-win process with relevant customers. During the course of this process, our customers would work closely with us to ensure that we can satisfy their design specifications and that our production facilities and

BUSINESS

capabilities fulfil requisite requirements. This design-win process would typically take at least six months. It is only upon due completion of such design-win process that mass production of a certain product would commence. This process reflects the level of commitment of our customers to our products and the expected demand of the products.

The composition of our R&D workforce is a matrix organisation. Depending on the new projects undertaken by us, our R&D team members collaborate with other R&D related engineers in various project teams. As at the Latest Practicable Date, our R&D team comprised 35 skilled and experienced core employees and 343 R&D related engineers who are principally engaged in our research and development covering electronics, software and mechanical engineering, product industrial design and intellectual property development. Six employees from our R&D team have obtained master's degrees and 26 of our R&D team members have obtained bachelor's or other advanced degrees.

During the Track Record Period, our research and development expenses, capitalised development costs and trademarks, designs and patents fees amounted to approximately HK\$9.7 million, HK\$12.2 million, HK\$23.9 million and HK\$14.3 million, respectively, representing approximately 1.4%, 1.6%, 2.7% and 2.1% of our total revenue, respectively. The amount of R&D expenses incurred and development costs capitalised depend not only on the number of R&D team members, but also and more importantly, on the number of project teams in place. There were more than 500 staff members who took part in 10 R&D projects during the six months ended 30 June 2010, and more than 250 staff members took part in six R&D projects in 2009.

Our R&D team has obtained various recognitions of their strength in the field. We have been awarded the Innovation Knowledge Enterprise Award organised by the Hong Kong Productivity Council in December 2009, which recognises our successful implementation of intellectual property management. In October 2009, our G3 fingerprint sensor mouse won the International Forum Design Award.

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

Product categories	R&D projects	Designed technological specifications
Capacitive touch products	<ul style="list-style-type: none"> Multi-media buttons 	<ul style="list-style-type: none"> A capacitive touch button from a single power button to more than eight multi-buttons, transparent buttons and sliders. The touch buttons can be applied to computers, computer accessories and other electronic and electrical appliances.

BUSINESS

Product categories	R&D projects	Designed technological specifications
Fingerprint biometric products	● USB fingerprint Dongle	● A USB drive which enables users to store login details to Microsoft Windows™ systems, certain websites or create encrypted files and folders. It also enables users to encrypt and allow personal access to different people's files as well as allowing various fingers to be used amongst other settings.
	● SecuMemory™	● A storage device which enables users to protect personal data and sensitive information with a fingerprint sensor installed for fingerprint authentication.
	● Fingerprint mouse	● A USB mouse which features a fingerprint sensor for windows system login, file encryption and screen saver unlock.
	● Fingerprint keyboard with Multi-media buttons	● A computer keyboard with fingerprint sensor installed and equipped with state-of-the-art touch buttons, in which it enables users to gain access to confidential files by swiping a finger rather than the conventional method of typing of passwords in other applications.
	● SecuButton™	● An application which combines touch sensing and fingerprint imaging technology to provide computer security control by one "swipe", which we believe to be the first application of its kind and unique in fingerprint biometrics market.

BUSINESS

Product categories	R&D projects	Designed technological specifications
Fingerprint biometric products (cont'd)	● Touch and Lock	● A technology that enables users to lock computer screens with one tap and unlock the screens by swiping the finger through matching the fingerprint of authorised users.
	● Multi-Touch Lock	● A technology that enables users to switch from one screen to another by tapping the fingerprint sensor for two seconds.
	● SecuFile™	● A technology that enables users to protect specific folders and files in the computer by fingerprint identification.
	● SpinMotion™	● A technology that enables users to navigate with fingerprint motion and to perform tasks using finger motions.
Wireless charging devices	● Wireless charging devices	● A technology that enables users to charge the battery of up to three mobile devices at the same time using the power receiver and power transmitter.

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

Product categories	R&D projects	Designed technological specifications
Capacitive touch products	● Lens and lamination	● A PET-to-glass/plastic lamination process that produces a touch screen surface on top of a LCD/LED display surface.
Fingerprint biometric devices	● DuoSecu™	● A technology that enables users to register a finger with a long password to a

BUSINESS

Product categories	R&D projects	Designed technological specifications
		maximum of 16 characters, in which the long password can be used for login by simply swiping the finger across the fingerprint sensor.
eCardFlex™	<ul style="list-style-type: none"> ● QuickCrypt™ ● ATM/credit cards 	<ul style="list-style-type: none"> ● A technology which encrypts protected data. ● Bank ATM/credit card with fingerprint sensor and SecuButton™ built-in to enhance transaction security.
Lighting source	<ul style="list-style-type: none"> ● Plasma street light ● Plasma light bulbs 	<ul style="list-style-type: none"> ● Street lighting which involves a high and reliable plasma light source, with less power consumption than conventional street lighting. ● A light bulb that produces bright plasma light.
Live sensation products	<ul style="list-style-type: none"> ● Live sensation device 	<ul style="list-style-type: none"> ● A life-style product combining the concepts of sound, smell and lighting.
Wireless charging devices	<ul style="list-style-type: none"> ● Portable wireless charging device 	<ul style="list-style-type: none"> ● A technology of electricity charging without cables or device specific adaptors, in which electricity can be stored into the device for portable use. It can be used in a variety of electronic devices, including mobile phones and MP3 players, without the need to connect to any power cable.

The majority of these designs, technologies and applications have been filed for design and/or patent registrations in Hong Kong, the PRC and the U.S. As at the Latest Practicable Date, we were granted 33 patents and designs and made applications for 56 patents and designs in Hong Kong, European Union, Japan, the PRC and the United States.

We believe that our research and development capability is crucial in maintaining our competitiveness in the industry. As part of our overall long-term development plan, we established

BUSINESS

Shining Union to consolidate our research and development efforts in addition to the other key function of coordinating our intellectual property matters. We have been providing one of our customers with the use of our R&D facilities to house their own design and engineering teams on site and we plan to extend such services to our other customers and strategic partners after completion of our new R&D centre.

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

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

Research project with Hong Kong Baptist University

We provided funds for a research project and entered into a collaboration with Hong Kong Baptist University in February 2009 to develop software for our fingerprint biometric devices. This research project was completed in July 2009 and the software developed includes a DSP algorithm for finger gesture detection, a concept which we call SpinMotion™, that can recognise human gestures and finger motions and enable the navigation and performance of tasks on computer screens. The total costs for this research project amounted to HK\$0.1 million which was provided by us from our internal resources. We will solely own the design and trade secrets resulting from the research project. Hong Kong Baptist University retains the right to use the software developed by the research projects for academic purposes but has no other right to use, sell or produce the software without our prior written consent. Our R&D personnel communicate regularly with the academic staff from the university to exchange information and receive updates on the progress of the research after the completion of the project.

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

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

We believe the engineering of the gas in light bulbs and its material content is critical to determine the strength of brightness and quality in colour for a plasma lamp bulb. In June 2009, we entered into a collaboration research project with Wuyi University, Jiangmen to formulate the inner substance for plasma lamp bulbs, and the project was completed in the fourth quarter of 2010. In this project, our R&D team cooperates and collaborates with Wuyi University's physics researchers, who offered their know-how and technology in conducting a series of tests and experiments, with the aim of developing a production-viable light bulb that is both of high quality and cost-efficient. We

BUSINESS

owned all research results of the project and all intellectual property rights developed from the research project. Wuyi University, without our prior consent, could not conduct or permit any production, use or sell the research results. The research funds for this project amounted to RMB90,000. Our R&D personnel met regularly with the academic staff from the university to exchange information and received updates on the progress of the research. The end-product of this collaboration was for our sole use.

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

INTELLECTUAL PROPERTY AND KNOW-HOW

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

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

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

As at the Latest Practicable Date, we were not aware of our business and operations having infringed any third parties' intellectual property rights during the Track Record Period nor were we

BUSINESS

aware of any third party infringement of our intellectual property rights (registered or in application) during the Track Record Period.

AWARDS AND ACCREDITATIONS

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

Award/accreditation	Awarding entity	Year of grant
Best Supplier of Q1 2010	PowerMat Ltd.	2010
Innovation Knowledge Enterprise Award <i>(for successful implementation of intellectual property management)</i>	Hong Kong Productivity Council	2009
International Forum Design Award <i>(a design award for our G3 mouse)</i>	International Forum	2009
Best Supplier of 2009	PowerMat Ltd.	2009
2008 Best Supplier Award	Synaptics	2008
Quality Supplier of the Year	Luxim	2007/2008
Certificate of Hi-tech Enterprise (高新技術企業認定證書)	Science and Technology Bureau of Guangdong Province of the PRC (廣東省科學技術廳)	2007

QUALITY CONTROL

In 2008, we were awarded the 2008 Best Supplier Award by Synaptics, recognising the excellent quality of our products. For 2007/2008, we were also awarded the Quality Supplier of the Year by Luxim, recognising our excellent support in providing quality products. In 2009 and the first quarter of 2010, we were awarded the Best Supplier of 2009 and the Best Supplier of Q1 2010 by PowerMat Ltd. in recognition of our best performance and the excellent quality of our products.

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

To further enhance customer confidence in our Group's production skills and to monitor product quality, our facilities are assessed annually for their compliance with the quality assurance standards. We have established and implemented a sophisticated quality control system which has obtained ISO 9001:2008, ISO 13485:2003, ISO/TS 16949:2002, OHSAS 18001:2007, TL 9000/ISO 9001:2000, and IECQ accreditations from SGS and IECQ in respect of our various products and management systems. In addition, the clean-room facilities in our production lines are maintained at Class 10K (≥ 0.5 micron), which is equivalent to ISO Class 7. For 2009, based on

BUSINESS

customer feedback, our SMT outgoing quality level ranges at an average from 50dppm to 200dppm and the average products workmanship RMA level is less than 200ppm.

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

Title of certification	Certification Body	Expiry Date
ISO 9001:2008 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	5 June 2013
ISO 14001:2004 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	24 November 2012
OHSAS 18001:2007 <i>(For the manufacture of PCB touch pads and PCBA)</i>	SGS	19 November 2012
TL 9000/ISO 9001:2000 <i>(For the manufacture of PCBA)</i>	SGS	19 November 2010 <i>(under renewal)</i>
ISO 13485:2003 <i>(For the manufacture of PCBA for medical device)</i>	SGS	19 January 2012
ISO/TS 16949:2002 <i>(For the manufacture of PCBA for automotive wireless communication)</i>	SGS	24 May 2012
IECQ Certificate of Hazardous Substance Process Management applicable to the European Directive 2002/95/EC ("RoHS") Requirements <i>(For the manufacture of PCB touch pads and PCBA)</i>	IECQ	14 October 2010 <i>(under renewal)</i>

As at the Latest Practicable Date, we had a quality control team of 86 full-time staff and 343 inspectors, who are responsible for implementing of our quality control policy.

We and our customers place significant emphasis on product quality. We believe that the highest quality of products can be achieved by close ties and cooperation with our customers. We conduct periodic quality reviews with our customers in respect of the quality of raw materials used and finished products produced. We also conduct our own internal audits to verify acceptable quality control, raw material management, production management and delivery management. During the Track Record Period, we allowed one of our customers, at its request, to assign its quality assurance teams to perform on-site quality control procedures in our production facilities with a view to ensuring that our products' quality meets their requirements. We arranged for their personnel to be on-site to carry out daily quality checks on our production process.

Our quality department is equipped with testing machines to perform reliability tests on our products according to our customer's specific requirements including: temperature cycle test; storage test; high humidity test; tapping test; rubbing or abrasion test; packaging drop test; and vibration test.

BUSINESS

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

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

INFORMATION TECHNOLOGY

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

BAAN ERP system

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

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

Barcode and Valor's vManage System

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

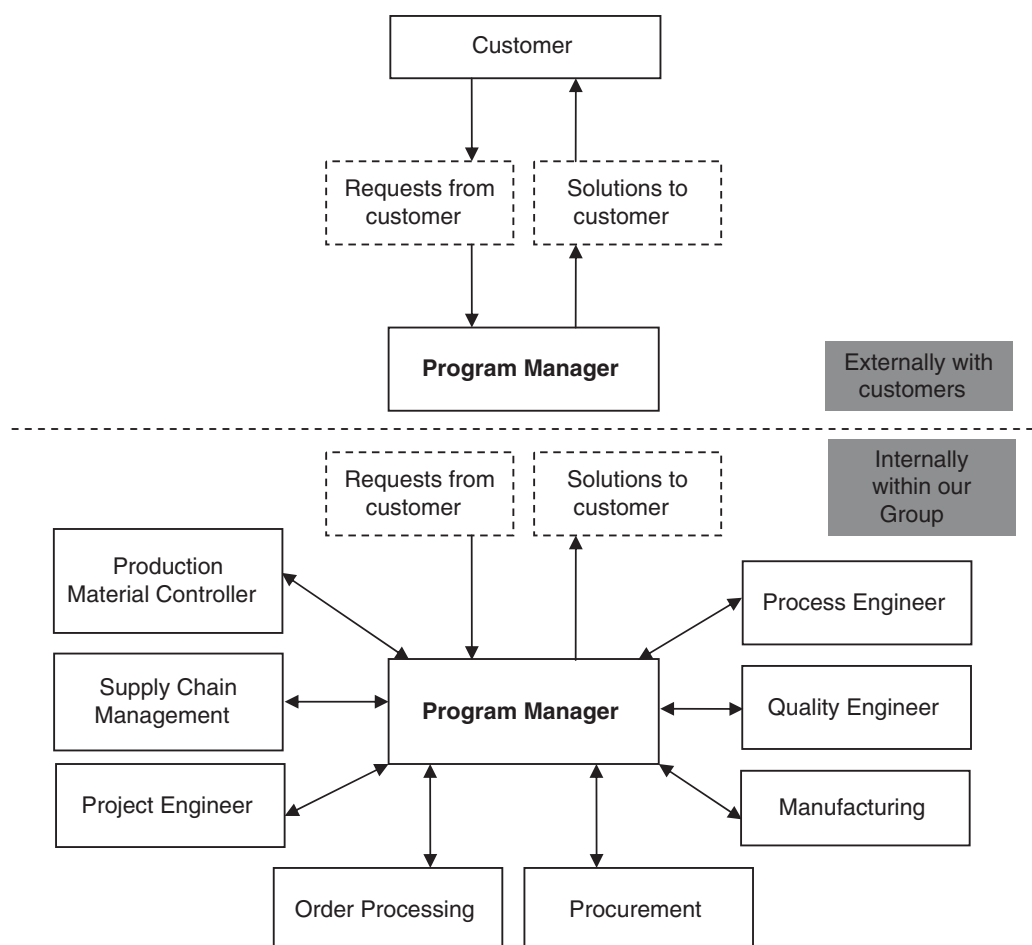
i-Manufacturing

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

BUSINESS

PROGRAM MANAGEMENT TEAM

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



SUPPLIERS AND RAW MATERIALS

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

BUSINESS

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

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

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

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

In relation to our fingerprint biometric devices, we purchase the fingerprint sensors directly from one of our customers to whom we sell part of our fingerprint biometric devices. In respect of our contract manufacturing services for automotive devices, we are provided with consigned ICs. For our production of wireless charging devices in the Track Record Period, we were also consigned with the necessary components by our customers. We have not experienced any difficulties in obtaining supplies of components since we commenced operations.

Our five largest suppliers in aggregate accounted for approximately 60.0%, 64.9%, 47.1% and 44.6% of our total purchases during the Track Record Period, supplying PCBs, connectors, mylars and labels, whilst our largest supplier, which supplies PCBs, accounted for approximately 23.8%, 31.0%, 16.7% and 18.0% of our total purchases, respectively, during the same period. None of our Directors, their respective associates and, so far as our Directors are aware, Shareholders, who will own more than 5% of the Shares in issue immediately following completion of the Global Offering (without taking into account any Shares which may fall to be issued upon the exercise of the Over-

BUSINESS

allotment Option or any options that may be granted under the Share Option Scheme), had any interest in any of our five largest suppliers during the Track Record Period.

INVENTORY CONTROL

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

As at 31 December 2007, 2008 and 2009 and 30 June 2010, our inventory, comprising raw materials, components and finished goods for temporary storage prior to delivery to customers, amounted to approximately HK\$44.4 million, HK\$32.9 million, HK\$105.7 million and HK\$188.8 million, respectively; whereas the inventory turnover (being the average of the beginning and ending balance of inventory divided by cost of sales and multiplied by the number of days during the year/period) during the same period was approximately 30 days, 24 days, 40 days and 56 days, respectively.

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

SALES AND BUSINESS DEVELOPMENT

Overview

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

We aim to develop long-term relationships with our customers. Our business development and program management teams work together to arrange regular visits to our customers. Although ODMs/OEMs of notebook computers and end customers of the capacitive touch pad supply chain (i.e. consumer electronics brands) are not our direct contractual customers, we work closely with these industry players in qualification process and regular audits in order to ensure that their specifications and expectations are met. Through such contact, we have been able to establish long term relationships directly with them and provide them with capacitive touch pads that satisfy their specific requirements.

During the Track Record Period, we adopted a customer-oriented approach towards our customers. We provided on-site space and facilities to the personnel of one of our customers in both

BUSINESS

our production base in Heshan City and our office in Hong Kong to conduct product reliability testing in order to increase communication and strengthen our relationship with this customer.

Sales channels

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

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

Marketing

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

Pricing policy

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

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

Customers

During the Track Record Period, the sales of capacitive touch pads and other products to our largest customer, Synaptics, accounted for 93.4%, 98.9%, 79.4% and 57.9%, of our total revenue, respectively. We have established a long-term business relationship for over 10 years with this customer. Save and except for this long-term ongoing business relationship between this customer and our Group, this customer has had no other past or present relationship (business or otherwise) with our Group, our Shareholders, Directors, members of our senior management and their respective associates. For further details of Synaptics, please refer to the section headed "Relationship with Synaptics" of this prospectus.

BUSINESS

It is our practice that we will not provide similar services to Synaptics' direct competitors, though in the event that our business relationship with Synaptics ceases, we are free to solicit business from its competitors. Further details are set forth in the section headed "Relationship with Synaptics" in this prospectus.

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

Our business spans across a wide geographical scope as our end-users are located at different parts of the world, including Asia, Europe and the U.S.. Our five largest customers during the Track Record Period accounted for 99.7%, 99.8%, 97.8% and 91.8%, of our total revenue, respectively. None of our Directors or their associates has any interest in any of our five largest customers. During the Track Record Period, we experienced some cancellation and delay of orders from our customers.

Credit terms

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

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

COMPETITION

Capacitive touch pad

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

BUSINESS

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

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

For further details on the risks of the competition that we face, please refer to the sections headed "Risk factors – Risks relating to our Group – We have relied on the sales of capacitive touch pads and other products to Synaptics for approximately 93.4%, 98.9%, 79.4% and 57.9% of our annual revenue respectively for the three years ended 31 December 2009 and the six months ended 30 June 2010, whose business and operations could have material and adverse effects on our Group's business operations and financial results", "Risk factors – Risks relating to our Group – Our products contain components or otherwise involve registered patents not owned by us", "Risk factors – Risks relating to our Group – Patents, technologies and software relevant to our products may infringe third parties' intellectual property rights" and "Risk factors – Risks relating to our Group – Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable" in this prospectus.

Fingerprint biometric sensor

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

Despite the fact that we only commenced commercialisation and distribution of fingerprint biometric devices in July 2008, our Directors believe our technological know-how we accumulated from the SMT and COB/COF production, registered patents and designs, expertise and resources for production, our marketing of fingerprint biometric devices, and our established relationships with our customers give us the ability to compete effectively with other major fingerprint biometric devices manufacturers in the future.

Wireless charging

According to iSuppli Corporation, 2010 would be the real birth of wireless charging with meaningful shipment volume. The market for wireless charging is expected to experience a steep

BUSINESS

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

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

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

EMPLOYEES AND EMPLOYEE BENEFITS

As of the Latest Practicable Date, we had 5,075 full-time employees. The following table sets forth the number of our full-time employees by function:

	No. of employees	% of total
Production	3,669	72%
Quality control	429	8%
Research and development, testing and engineering	322	6%
Management and administration	460	9%
Sales and marketing	60	1%
Procurement and warehouse	135	4%
Total	<u>5,075</u>	<u>100%</u>

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

During the Track Record Period, our costs incurred on employee benefits were approximately HK\$75.8 million, HK\$98.1 million, HK\$119.1 million and HK\$89.3 million, respectively, representing approximately 11.2%, 13.1%, 13.4% and 13.4% of our revenue, respectively.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety at the workplace and grounds for termination. In accordance with the applicable PRC laws and regulations, we contribute to social security funds, including pension

BUSINESS

funds, work-related injury funds and unemployment insurance funds for our employees in the PRC. In addition, we also provide childbearing insurance for our female employees. Our PRC legal advisers have confirmed that we have complied with the relevant staff social security related PRC laws and regulations, except for such laws and regulations in respect of medical insurance funds and housing provident funds, which is discussed under the section headed “Risk factors – We did not make mandatory contributions to medical insurance funds and housing provident funds prior to September 2009” and “Directors, senior management and employees – Staff benefits” in this prospectus. As far as we are aware, no administrative actions in relation to staff social security have been taken against us since our establishment of World Fair Heshan. We have commenced contributions to the medical insurance funds for all our eligible employees and the housing provident funds for some of our eligible employees from September 2009 onwards. We will continue to make full payments in the future in compliance with relevant PRC laws.

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

HEALTH AND SAFETY

To ensure that our production facilities comply with applicable health and safety standards, we have established an environmental, health and safety management team which carries out periodic safety inspections at our production facilities. One of our customers also requires us to comply with certain additional health and safety standards, including ISO 14001:2004, OHSAS 18001:2007 and the EICC standards. We have established an environmental, health and safety (“EHS”) management system and implemented the EICC system to comply with the above international standards.

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

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

INSURANCE

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

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

BUSINESS

ENVIRONMENTAL COMPLIANCE

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

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

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

According to the confirmation issued by *Environmental Protection Bureau of Heshan* (鶴山市環境保護局) on 16 September 2010 and confirmed by our PRC legal advisers, our business has complied with all applicable PRC environmental protection laws and regulations. We had no environmental incidents of pollution, accidents or other breaches of environmental laws and regulations, and there have been no fines imposed against us by environmental protection authorities since our establishment.

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

LEGAL PROCEEDINGS

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

BUSINESS

PROPERTY

Property interests owned in the PRC

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

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

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

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

Owned properties without real estate ownership certificates

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

BUSINESS

our main power supply. The back-up power room did not contribute any income to us during the Track Record Period and no income was derived from the staff canteen during the Track Record Period as it is for the use and enjoyment of our senior management staff as part of staff welfare and benefits.

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

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

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

Property under construction in the PRC

Properties under construction without necessary permits

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

BUSINESS

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

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

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

Property interests occupied and rented in the PRC

As at 31 October 2010, our properties occupied and rented in the PRC (namely, the properties marked 2 to 8 under “Property Valuation – Group II – Property interests leased and occupied by the Group in the PRC” in Appendix IV to this prospectus) include approximately 7,583.5 sq.m. of gross floor area for staff quarters purposes, approximately 536.4 sq.m. of gross floor area for office purposes and approximately 7,771.2 sq.m. of gross floor area for production purposes.

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

We have not obtained proper title documentations for our leased properties marked 3, 6 and 7 under “Property Valuation – Group II – Property interests leased and occupied by the Group in the PRC” in Appendix IV to this prospectus. As advised by our PRC legal advisers, no penalties would be imposed on us but in the event that the relevant lessors are unable to prove valid title to such properties, or where any such leased properties is found to be illegal or unauthorised structures, the relevant property tenancy agreements may become invalid and unenforceable under PRC law, as a result of which, we may not be able to continue to occupy and use such leased properties.

BUSINESS

The lessors have undertaken to resolve and handle any disputes and penalties arising from the leasing of such properties, in addition to which, we have obtained an indemnity from each of the relevant lessors in respect of any and all damage and losses (including reasonably expected economic losses) that may result from any such disputes and penalties. Nonetheless, there is no assurance that the lessors will honour their undertakings and indemnities, in which case, we may suffer financial losses in relation to any disputes and penalties arising from such leased properties and related relocation costs, which we estimate to be around RMB0.1 million.

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

Property interests rented in Hong Kong

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

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

In September 2009, we relocated our office to Nina Tower, 8 Yeung Uk Road, TWTL 353, Tsuen Wan, New Territories, Hong Kong, which we leased, as at the Latest Practicable Date, four units with a total area of approximately 1,950.96 sq.m., where our principal place of business in Hong Kong is currently located.

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

Property interests rented in Taiwan

We currently rent a property with a gross floor area of approximately 372.43 sq.m. at No. 408, Rueiguang Road, Neihu District, Taipei City, Taiwan. We currently occupy this property as the office for our branch office in Taiwan.

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

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

BUSINESS

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 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 the tax audit of its tax affairs for the tax years from 2003/04 to 2008/09. The issue at stake relates mainly to transfer pricing of intercompany transactions and the treatment of certain expenses, including commissions, consultancy fees, hire purchase interests and entertainment expenses. In particular, World Fair Hong Kong made an adjustment to its accounts for the year of assessment 2007/08 to reflect the arm's length price for the transactions with World Fair Heshan, which was reported to the IRD voluntarily in August 2009. The IRD later issued an additional notice of assessment for the year of assessment 2007/08 to World Fair Hong Kong in January 2010 and the profits tax in relation to the abovementioned adjustment had been paid in February 2010. Since the price adjustment was made to the IRD subsequent to the submission of the profits tax return for 2007/08, the IRD may or may not impose a penalty on the tax undercharged because of the adjustment. Further, the IRD may disallow part of commission payments, consultancy fees and entertainment expenses of World Fair Hong Kong as the supporting documents may not be sufficient to substantiate the tax deductibility. For example, some of the source documents required to support the deduction claims for previous years are not readily available. Part of the hire purchase interests may also be disallowed by the IRD as such hire purchase interests were incurred on plant and machinery purchased under the title of World Fair Heshan but not World Fair Hong Kong.

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 to this prospectus). 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. Before the IRD completes its review process and any additional tax liabilities be settled, the IRD may issue additional assessments for the 2004/05 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 and there is no assurance that such liabilities will not materially affect our business operations and financial positions. Apart from assessing additional tax, we cannot rule out the possibility that the Commissioner of the IRD may, at his discretion, take penalty actions against World Fair Hong Kong for its non-compliance of the requirements under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) if such a case is to be made out.

On 20 April 2010, World Fair Hong Kong filed an objection with the IRD against the additional assessment for 2003/04 and by a notice dated 7 May 2010 the IRD has agreed to an unconditional holdover the whole amount of the estimated tax as the objection is under consideration, which may or may not be ruled in favour of our Group. A meeting between the Company and the IRD in relation to the tax audit was held in June 2010.

The Group voluntarily placed a deposit of HK\$3 million with the IRD to cover the potential additional profits tax liabilities and penalties which may arise from the tax audit.

BUSINESS

On 17 September 2010, World Fair Hong Kong submitted a proposal to the IRD for settlement at HK\$1.3 million to cover the potential additional profits tax liabilities during the relevant periods. The final outcome of the tax audit was still uncertain at the Latest Practicable Date as it is still in negotiation and accordingly, it is disclosed as a contingent liability in the financial statements of the Company.

Based on the meetings with the IRD, currently available information and the advice from World Fair Hong Kong's tax adviser, PricewaterhouseCoopers Limited, the Directors believe that although the amount of additional tax proposed in the settlement proposal mentioned above is reasonable, the potential additional tax liability and penalties of World Fair Hong Kong for the tax years 2003/04 to 2009/10 as a result of the possible tax adjustments made during the tax audit by the IRD are best estimated to be HK\$4.5 million based on the currently available information and status of the tax audit. The Directors are unable to ascertain the maximum potential tax liability and penalty at this stage as it is possible that the IRD may further impose monetary penalties on the tax adjustments for the said years as a result of the tax audit.

To prevent the recurrence of similar incidents, World Fair Hong Kong has now engaged PricewaterhouseCoopers Limited as its tax adviser to provide professional advice in relation to maintaining additional documentation to support the tax deduction claims on the expenses under review by the IRD.

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 2009/10 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 to 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 the Latest Practicable Date.