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## RELATIONSHIP WITH SYNAPTICS

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**This section includes information relating to Synaptics and, unless otherwise stated, is extracted from the iSuppli Touch Report and other publicly available sources including the website of Synaptics and the public filings of Synaptics (including the Synaptics Annual Report and its listing document). Our Directors have taken all reasonable care to ensure that the relevant statements in this section are accurately reproduced from relevant sources. The statements and statistics in this section have not been independently verified by our Company, our Selling Shareholder, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective affiliates, directors and advisers or any other parties involved in the Global Offering. None of them makes any representation as to the accuracy or completeness of such information which may not be consistent with other information available and may not be accurate and should not be unduly relied upon.**

### **Touch pad supply chain**

Major participants in the touch pad supply chain can be generally categorised as: (a) touch pad IC suppliers; (b) touch pad manufacturers; (c) touch pad vendors; (d) ODMs/OEMs of notebook computers and consumer electronics; and (e) consumer electronics brands. Our Group is a capacitive touch pad manufacturer in this supply chain.

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

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

Unlike our Group (principally as a capacitive touch pad manufacturer in the supply chain), Synaptics performs the dual roles (i) as an IC supplier, developing and supplying the ICs and (ii) as a touch pad vendor by procuring touch pads from manufacturers such as our Group for onward sales to the ODMs/OEMs of notebook computers and other consumer electronics.

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

During the Track Record Period, we relied heavily on Synaptics, as our single largest customer, in terms of sales and revenue. The sales of capacitive touch pads and other products (including multimedia buttons and capacitive touch screen controllers) to Synaptics accounted for approximately 93.4%, 98.9%, 79.4% and 57.9% of our total revenue respectively for the three years ended 31 December 2009 and the six months ended 30 June 2010.

Our Directors believe that given our over 10-years' business relationship with Synaptics, our production know-how, product quality and our lower cost base of our products, which have met the requirements of Synaptics and its customers, we have become one of the key suppliers and contract manufacturers of Synaptics' touch products. As such, our Directors believe it symbolises our Group's role in Synaptics' operations and the mutual reliance and benefit of the two parties and that it will be of mutual benefits to both parties to continue their long-term course of dealings. Although we have not entered into any formal long-term agreement with Synaptics, given its market position in the touch product industry and the fact that there are only a few leading players in the industry, it is our practice not to provide similar manufacturing services to its competitors.

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### Background of Synaptics

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

According to the iSuppli Touch Report, Synaptics is the leader in the sales of touch products (personal computer and mobile devices segment taken as a whole). For the period from 2004 to 2008, sales of touch pads by Synaptics accounted for approximately 85.8%, 67.0%, 66.9%, 62.9% and 59.1% of the annual worldwide revenue from the sale of touch pads, respectively, and there were five other leading touch pad vendors, whose sales accounted for approximately 1.4% to 23.5% of market share in terms of the annual worldwide revenue from the sale of touch pad, respectively in 2008. For the personal computer touch pad segment alone, Synaptics shared approximately 75% of annual revenue worldwide in 2008. In view of its leading position in the touch industry, we believe that Synaptics has the following competitive advantages: (i) patents and advanced technologies (we understand Synaptics possesses an extensive portfolio of intellectual property rights relating to touch products); (ii) scale of production (evidenced by its high sales volume); and (iii) established business relationships with major consumer electronics brands.

Synaptics' business includes developing and supplying custom-designed human interface solutions, and enabling customers to access their technologies to develop their own human interface designs for capacitive button and scrolling applications. Its target markets consist of the personal computer market and the digital lifestyle products market which includes mobile smartphones and feature phones, and portable digital music and video players. Synaptics' products include touch pads, touch buttons and touch screen products.

As disclosed in the Synaptics Annual Report, Synaptics' suppliers include three semiconductor wafer manufacturers, which produce technical components of the touch products, package and test processors, which further process and package the technical components; and various contract manufacturers, which assemble the consigned components to produce touch products. Synaptics engages contract manufacturers mainly in China, Taiwan and Thailand for the production of its products and components based on 6-month rolling forecasted production requirements with no long-term agreement.

### Risks faced by Synaptics

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

- (1) Synaptics derived a very substantial portion of its revenue from the sale of touch products for notebook computers, and such products accounted for approximately 57% of its net revenue for the fiscal year 2009. Any weakening of demand in the notebook and personal computer market will cause harm to its business and financial conditions.
- (2) As Synaptics does not sell directly to retail consumers but to international consumer electronic brands, it has no control over the manufacturing, distribution, pricing and market acceptance of the end products which incorporate its touch products. Synaptics'

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sales will decrease if its customers in turn do not achieve commercial success in selling such end products to consumers.

- (3) Synaptics outsources all of its production requirements and generally requests its contract manufacturers to ship its products directly to its customers from these contract manufacturers' facilities. However, Synaptics does not have any long-term supply contracts with any of its contract manufacturers and uses three third-party wafer manufacturers to supply wafers and two third-party packaging manufacturers to package its proprietary components. In certain cases, Synaptics relies on a single source or a limited number of suppliers to provide other key components of its products. Should the supply of these requisite components become unavailable, the operations of Synaptics may be adversely affected.
- (4) Synaptics' business could be affected if its products become less competitive or outdated as a result of technological breakthroughs that allow a new interface solution to displace its touch product solutions expediting the obsolescence of its touch pad products.

For details, please refer to the section headed "Risk factors – Risks relating to our Group – As we have relied on Synaptics for the sales of capacitive touch pads and other products which 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, the business and operations of Synaptics could have material and adverse effects on our Group's business operations and financial results" of this prospectus.

### **Relationship with Synaptics**

#### *History with Synaptics*

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

We have maintained a long-term business relationship with Synaptics for over 10 years, during which we have relied on Synaptics for a significant source of our revenue, its patents and technologies. This reliance could be principally attributed to the fact that Synaptics is a global leader in touch pad sales in terms of revenue and has a first-mover advantage in terms of touch product technologies.

#### *Contractual arrangement with Synaptics*

Although our Group has established over a decade's course of dealings with Synaptics, we have not entered into any formal long-term agreement to govern our business dealings in the usual course of business or to formalise our relationship. Instead, we receive 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. Our practice of not entering into any formal long-term agreement with Synaptics is adopted based on the following considerations:

- (a) it is our practice to conduct sales with Synaptics based on purchase orders and rolling forecasts, which are non-binding in nature. We believe that such practice is in line with

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industry practices generally adopted by other manufacturing services providers in the electronics industry;

- (b) our business partnership with Synaptics without a long-term binding agreement offers us the flexibility in our operations to cater for the often dynamic changes in the electronics industry such as changes in customer demand and technologies; and
- (c) most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry and only minor adjustments, which could be completed in a reasonably short period of time with nominal costs, would be required to accommodate other specific requirements from other customers. In addition, if production adjustments are made, our production staff will only have to attend brief training sessions and can be trained within a reasonably short period of time at nominal costs.

Although, in the absence of a formal agreement with Synaptics, we are not contractually prohibited from providing similar manufacturing services to others, it is our practice not to provide similar services to competitors of Synaptics because if our business relationship with Synaptics ceases for whatever reason, and we decide to produce capacitive touch pad products for other capacitive touch pad vendors, our market position and financial conditions will be adversely affected if we were unable to secure a similar level of orders from other capacitive touch pad vendors. 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 – As we have relied on Synaptics for the sales of capacitive touch pads and other products which 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, the business and operations of Synaptics 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.

### *Valued Business Partner*

During our long-term course of dealings, our Group has offered continuous support and contribution to Synaptics as a valued business partner and we believe both have developed, to a certain degree, a mutual reliance and benefit in terms of product quality, sales and cost effectiveness.

On the one hand, our Group has attained a mass volume of production, enabling us to become a leading provider of capacitive touch pads by volume for use in notebook computers. On the other hand, we believe Synaptics has benefited from our Group’s lower cost structure and quality and reliable products. Our Directors believe that if Synaptics were to commence business relationship with a different touch pad manufacturer, such manufacturer may not be able to achieve our production capacity or duplicate our cost structure within a short period of time, which may impact Synaptics’ profit margin or its stability of supplies.

According to the Synaptics Annual Report, its cost of revenue for the four fiscal years ended 30 June 2007, 28 June 2008, 27 June 2009, 26 June 2010 was approximately US\$160.9 million,

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US\$213.6 million, US\$281.8 million and US\$306.2 million, respectively. During the three years ended 31 December 2009, approximately HK\$629.7 million, HK\$741.6 million and HK\$705.2 million (equivalent to approximately US\$80.7 million, US\$95.1 million and US\$90.4 million respectively) of our Group's revenue was attributed to Synaptics, respectively. Using these financial figures as a point of reference only, we believe that Synaptics has entrusted our Group as a key contract manufacturing provider. It should be noted that: (i) since the financial year of Synaptics ends on 30 June, whereas the financial year of our Group ends on 31 December, it may not be appropriate to take the financial figures quoted above as directly comparable; (ii) as the breakdown of Synaptics' cost of revenue is not publicly available, its total purchases of capacitive touch products are unknown; and (iii) the accounting standards and principles of Synaptics and our Group are different. As such, the above figures are for illustration purposes only and should not be unduly relied upon.

According to the Synaptics Annual Report, Synaptics utilises contract manufacturers for all of its production requirements. However, Synaptics does not have long-term agreements with any of its contract manufacturers that guarantee production capacity, prices, lead times or delivery schedules. This strategy of deploying these contract manufacturers might expose Synaptics to certain vulnerability owing to its dependence on only a limited number of suppliers. On the other hand, our Directors believe that having no long-term agreements with its contract manufacturers offers Synaptics with the flexibility of establishing relationships with other suppliers to diversify its sources of supply. These contract manufacturers also perform services for numerous companies other than Synaptics. According to the Synaptics Annual Report, the process of identifying and approving new contract manufacturers by Synaptics could be time consuming and might result in unforeseen manufacturing and operational problems. Any loss of relationships by Synaptics with its contract manufacturers or assemblers, or their inability to conduct their manufacturing and assembly services for Synaptics as anticipated in terms of cost, quality and timeliness could adversely affect Synaptics' ability to fill customer orders with required delivery, quality and performance requirements. Should the above occur, this may result in a decline in revenue which may in turn harm Synaptics' business.

Our Group ships our manufactured capacitive touch pad products directly to Synaptics' customers. During 2006 to 2009, our Group sold approximately 245.8 million capacitive touch pads in total. According to the IDC, during the same period, the global shipments for notebook computers were estimated to be approximately 499.0 million. Touch pads are found essentially in the majority of notebook computers. Given that our Group is one of the largest capacitive touch pad manufacturers for notebook computers in the world by volume, if our relationship with Synaptics ceases, we believe Synaptics may have difficulty in securing supply from other capacitive touch pad manufacturers within a short period of time to satisfy the demand of its customers as we may have in securing a similar level of orders from other capacitive touch pad vendors.

Synaptics is an Independent Third Party, with whom we conduct business on an arms' length basis. Despite the parties' independence and the lack of any formal long-term commitment, our Group has remained a key contract manufacturing provider of Synaptics for over 10 years. We believe this demonstrates Synaptics' trust in our Group and our products and their appreciation of us.

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### **Reliance on Synaptics – A decreasing trend**

#### *Sales Concentration*

We have relied on Synaptics for the sales of capacitive touch pads and other products which accounted for approximately 93.4%, 98.9%, 79.4% and 57.9% of our revenue, respectively, for each of the three years ended 31 December 2009 and the six months ended 30 June 2010. Our business and financial results rely on, amongst other factors, the continuation of orders and the quantity of orders placed by Synaptics.

Our Group believes that Synaptics' leading position in the touch pad industry was mainly due to: (a) Synaptics' first-mover advantage in the touch pad industry and Synaptics has been leading the touch pad industry for a number of years; (b) the fact that the cost of touch pads is relatively minimal when compared with the value of notebook computers, system-integrators (i.e. ODMs/OEMs of notebook computers), and Synaptics as a market leader has customarily established long-standing relationships with consumer electronics brands and continues with such arrangement; and (c) its scale of production.

With our active efforts to diversify our product mix during the Track Record Period, and in particular the year ended 31 December 2009 and the six months ended 30 June 2010, the percentage of our total revenue attributable to Synaptics has decreased.

Please refer to the section headed "Risk factors – Risks relating to our Group – As we have relied on Synaptics for the sales of capacitive touch pads and other products which 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, the business and operations of Synaptics could have material and adverse effects on our Group's business operations and financial results" in this prospectus.

#### *Qualification certifications by Synaptics' customers*

Although our Group's indirect sale of capacitive touch pad products to ODMs/OEMs of notebook computers and other consumer electronics are conducted through Synaptics, in the Track Record Period, we worked closely with them and obtained qualification certificates directly from a range of such ODMs/OEMs and consumer electronics brands which utilised capacitive touch products we manufactured in order to ensure that their specifications and expectations are met. The qualification process is costly and time-consuming, and entails technological advancements to pass a series of quality and reliability tests on our products, all of which will potentially pose a significant entry barrier for potential competing capacitive touch product manufacturers and we believe would discourage Synaptics from turning to alternative manufacturing services providers.

"Qualification" is a process through which our Group's capacitive touch pad products, production facilities and production staff are audited by ODMs/OEMs of notebook computers and consumer electronics and end customers of the supply chain, being consumer electronics brands, to ensure that their specific requirements from technical and design specifications, work procedures, product quality to factory environment, inventory management and staff training are satisfied. In this process, our Group is given tailored specifications from the relevant end customers of the supply chain and upon which our Group works closely with their audit teams and Synaptics to make the necessary adjustments and improvements in order to meet such requirements. Some end customers



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also carry out regular reviews and audits following initial qualifications. In the course of routine production, we are in regular contact with the relevant ODMs/OEMs of notebook computers and end customers for purposes of regular audits and improvement plans.

Throughout the past decade, we received various qualifications from the ODMs/OEMs of notebook computers and consumer electronics, and end customers of the capacitive touch product supply chain. We believe that it may not be in the best interest of Synaptics (in terms of, among other things, product quality and delivery time) to terminate its engagement of our Group's contract manufacturing services. Given (a) the qualification process requires considerable time and costs to complete, (b) the relatively low cost of a capacitive touch pad when compared with the value of a notebook computer, (c) the fact that our Group has been in the capacitive touch pad industry for more than 10 years, and (d) our Group's production process and quality products have satisfied design specifications and other production requirements of Synaptics' customers, our Directors do not believe that Synaptics' customers would request Synaptics to cease its engagement with us.

### *Direct delivery to ODMs/OEMs of notebook computers and end customers of supply chain*

In addition to the qualification process, our Group has also been directly delivering our capacitive touch pad products to ODMs/OEMs of notebook computers and the end customers of the supply chain.

### *Consignment of ICs and provision of other materials and work instructions*

In order to ensure our products satisfy Synaptics' technical and functional requirements and to protect its proprietary technology and technical know-how, we have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics, which is in line with the practice of the electronics manufacturing service industry and solely for use in the production of touch pad products for Synaptics. The consigned ICs are shipped to us directly from the designated IC suppliers and payment for the ICs is settled by Synaptics directly with its IC suppliers. Synaptics also provides us with designs, drawings, specifications and software specific for the production and testing of its touch products, which are not generally applicable to all capacitive touch products in the market.

With the provision of these components and materials, we manufacture capacitive touch pads for Synaptics. The production process mainly involves the assembly of the ICs and other capacitive touch pad components onto the PCBs through SMT and COB/COF processes, circuit testing for connectivity, and application testing for functionality.

Our Directors believe that consignment is widely and generally adopted in the electronics manufacturing industry. It is also common for electronics manufacturing services providers to share and to be licensed for the use of intellectual property rights of their customers in the process of providing manufacturing services. Over the Track Record Period, we did not record these components and materials provided by Synaptics in accordance with Hong Kong Financial Reporting Standards in our accounting records.

Although ICs sourced from different IC suppliers, including those from Synaptics, contain certain proprietary rights, our Directors believe that they generally perform similar functions and are therefore close substitutes of each other. Other than ICs consigned by Synaptics to our Group, there are ICs from other IC suppliers readily available for sale in the market. In terms of mechanical constraints, the use of ICs from other IC suppliers may involve minimal adjustments to the software

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relating to our production and machinery and certain testing procedures which our Group is capable of handling in-house.

We are committed to become the manufacturing partner of our customers rather than a mere sub-contractor and we are involved in a series of engineering, procurement, assembly and logistics processes in the course of our production. We provide suggestions to our customers such as PCB modifications, use of alternative components and component positioning with the aim of achieving higher production efficiency, precision and cost advantages. In terms of procurement, there are other key components of capacitive touch products, such as connectors, PCBs and mylars, which we source from suppliers and distributors in the market, instead of being provided or consigned by our customers. With regards to the assembly of capacitive touch pads, we apply our production know-how and experience to satisfy the requirements of our customers.

During the Track Record Period, Synaptics also specifically requested us to acquire certain testing equipment for testing of capacitive touch pads. Such equipment is however not tailored specifically for testing Synaptics' products and can be used to conduct testing of products manufactured for other customers, if and when required, with minor adjustments within a reasonably short period of time.

### *Patents and Technologies*

Our capacitive touch pad products utilise capacitive touch technology. Synaptics possesses an extensive array of patents and technologies and its products rely on a combination of technologies. Synaptics, according to the Synaptics Annual Report, has 113 patents in force and 113 applications pending in the United States, and many other patents registered or pending registration outside of the United States. These patents and patent applications relate to capacitive touch sensing and other technologies, such as customisable touch zones, edge motion and virtual scrolling. Its proprietary software is also protected by copyright laws and other trade secret laws. We have a non-exclusive, non-transferable and royalty-free license agreement with Synaptics authorising us to utilise its proprietary IC designs, drawings, specifications and software which incorporate its intellectual property rights solely for use in the production of capacitive touch pad products specific to Synaptics.

We do not have full information on the patents and technologies which are used and relevant to the production of capacitive touch pad products for Synaptics, nor the details of such patents (including the expiry dates of Synaptics' patents on relevant touch products). Our Directors believe that the lack of knowledge and/or ownership of the relevant patents and technologies in our capacitive touch pads does not affect the viability of our business, as our focus is on the provision of contract manufacturing services in the assembly of capacitive touch pad products with our input of production know-how and experience.

As our production process mainly involves the assembly of the ICs and other capacitive touch products components onto the PCBs through SMT and COB/COF processes, circuit testing for connectivity and application testing for functionality, knowledge of the patented technologies in respect of capacitive touch products is not a pre-requisite for our production process. Our Directors believe that our Group's main strength as a manufacturing services provider lies with our SMT and COB/COF manufacturing capabilities which enable us to offer high quality products at competitive pricing and timeliness.

In the event that Synaptics terminates the license arrangement with us and ceases to have a business arrangement with us and accordingly its consigned IC drawings, specifications, tooling and



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work instructions become unavailable for our production of capacitive touch products, we could solicit business from other industry players and utilise the ICs, designs, drawings, specifications and software provided by such customers to continue our production of capacitive touch products. If we cease our business relationship with Synaptics, a global leader of touch pads, and decide to produce touch pad products for other touch pad vendors, there may be a material adverse impact on our market position and financial conditions if we were unable to secure similar level of orders from other customers.

For further details of the risks relating to our business, including the intellectual property rights which are not owned by us, please refer to the sections headed “Risk factors – Risks relating to our Group – Our products contain components or otherwise involve registered patents not owned by us” and “Risk factors – Risks relating to our Group – Patents, technologies and software relevant to our products may infringe third parties’ intellectual property rights” and “Risk factors – Risks relating to our Group – Our business will be adversely affected if the relevant patents of our customers expire or otherwise become unavailable” of this prospectus.

### *Transferability of experience and know-how*

In the course of our production of capacitive touch pad products for Synaptics, we apply our production know-how and experience in SMT and COB/COF production. In addition to strictly following our customers’ work instructions and specifications, we provide suggestions regarding PCB design modifications, use of alternative components and optimal component positioning to Synaptics regarding its product design with an aim of achieving higher production efficiency, precision and cost advantage. We also have experience in controlling the production environment and product fitness.

Although during the Track Record Period, the production of capacitive touch products for Synaptics remained our revenue driver and the bulk of our property, plant and equipment was committed to this effort, most of our production facilities, namely, the SMT lines and COB/COF lines, are standard manufacturing equipment in the electronics industry which could be deployed for other specific requirements of other customers after only minor adjustments, including changing production and testing software, conveying tooling, and finalising assembly process. These adjustments can be completed within a reasonably short period of time and at nominal costs. With regards to our production staff, as our production process is highly 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 can be trained within a reasonably short period of time at nominal cost.

In the event that Synaptics reduces purchase orders to us or if we were to cease our business relationship with Synaptics in the future, we believe that by utilising our production know-how and industry experience, in particular in relation to SMT and COB/COF process, with other customers’ specifications and work instructions, we have the technique to produce capacitive touch pad products for other customers by utilising ICs from other sources readily available in the market, as well as other electronics products, which involve SMT and COB/COF processes in their production.

Please refer to the section headed “Risk factors – Risks relating to our Group – As we have relied on Synaptics for the sales of capacitive touch pads and other products which 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, the business and operations of Synaptics could have material and adverse effects on our Group’s business operations and financial results” in this prospectus.

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### *Product life cycle and risks of obsolescence*

According to the iSuppli Touch Report, although touch pads have existed for more than 10 years with a switch from resistive technology to capacitive touch technology, the number of touch pad products is still estimated to grow and the overall market size of capacitive touch pads is expected to increase further to approximately 775 million units in 2013 from 379 million units in 2009 representing a CAGR of approximately 19.6%. For touch screen products, according to DisplaySearch, shipments of touch screen modules are expected to increase to approximately 1.4 billion units by 2015 from approximately 483 million units in 2009, representing a CAGR of approximately 19.4%, which is approximately 3.4 times faster than the growth of the display industry. Based on such estimated growth rates, our Directors believe that the product life-cycles of capacitive touch pads and capacitive touch screen products are at a booming stage and they anticipate the overall market size to increase continuously in the coming years.

According to iSuppli Corporation the markets for both capacitive touch pads and touch screens are estimated to continue to grow at a CAGR of double digits in the coming years. Our Directors believe that the capacitive touch pads market and touch screen market are two different markets with different price profiles, in which the capacitive touch pad modules and touch screen modules can be used in different electronics products. Capacitive touch pads are mainly used in, among other things, notebook computers and multi-media players, whilst touch screens can be applied to mobile phones, television and desktop computer monitors. Our Directors do not believe that the market of capacitive touch pads will be replaced by touch screen modules in the foreseeable future.

In the unlikely event that capacitive touch pads are replaced by touch screen products (of which our Group also possesses the requisite manufacturing capacity) or other products in the near future, by utilising our production know-how and experience in SMT and COB/COF production, we aim to minimise the risk involved by continuing our strategy of product diversification. For details, please refer to the section headed “Business – Production – Production facilities” in this prospectus. Please also refer to “Risk factors – Risk relating to our Group – We may not be able to enhance our existing products or production process to match the rapid pace of technological development” in this prospectus.

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

### **Our alternative business model and diversification and contingency plan**

Our Group has maintained a long-term business relationship with Synaptics for over 10 years and has relied on Synaptics for a significant source of revenue. We have access to the patents and technologies of Synaptics for the production of its touch pads.

Despite our relationship with Synaptics as described above, which we expect to continue, our Group, for reasons stated in this section, believe that it has the ability to sell directly to ODMs/OEMs of notebook computers and consumer electronics and end customers of the capacitive touch pad supply chain in practice. The historical sales reliance of our Group on Synaptics brings along limited risks in our business model. In the interest of preserving our long-term business relationship with Synaptics, our Group has not in the past actively explored the possibility of direct sales to Synaptics’ customers as an alternative business model. While our Group is not obliged to continue its current business arrangements with Synaptics, our Group has not and does not intend to deviate from such business model.

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Our Directors also anticipate that the significance and proportion of revenue to be derived from Synaptics will gradually decrease through our diversified product mix, including the expansion in the production of wireless charging devices, the capitalisation of growth in fingerprint biometric devices and the sales of lighting source products. As these three products carry higher gross profit margins (approximately 29.8%, 42.2% and 37.9% in the year ended 31 December 2009, respectively) when compared to capacitive touch products (approximately 27.6% in the year ended 31 December 2009), these products may contribute to the increase of our overall gross profit margins. For details of the respective revenue and gross profit margins of our products, please refer to the section headed “Financial information” in this prospectus.

In the event that our business relationship ceases with Synaptics, we would rely on our ongoing product diversification plan to sustain our business. Over the Track Record Period, we expanded into the assembly of fingerprint biometric devices, wireless charging devices, lighting source products and various other automotive and medical devices. Our wireless charging devices accounted for approximately 11.5% and 18.4% of our revenue for the year ended 31 December 2009 and the six months ended 30 June 2010 and our Directors expect the wireless charging business segment to account for an increasingly significant portion of our revenue going forward. We also strengthened our R&D capability over the Track Record Period for the development of a series of new products and applications.

For details of our future plans, please also refer to the section headed “Business overview – Strategies and future plans” in this prospectus.