

---

## FINANCIAL INFORMATION

---

**You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as at and for each of the years ended 31 December 2007, 2008 and 2009, and for the six months ended 30 June 2010 and the accompanying notes included in the accountant's report set out in Appendix I to this prospectus. The accountant's report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountant's report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.**

### OVERVIEW

We are a leading provider of capacitive touch pads by 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.

Capacitive touch pads were our core product and revenue driver during the Track Record Period. We also produced touch screen controllers and multi-media buttons, which may be used in multi-media smart phones, portable media players, handheld messaging and personal digital assistant devices and peripheral computer equipment.

We have been in the capacitive touch pad business for over 10 years, during which we have provided contract manufacturing services in the manufacturing of capacitive touch pads to Synaptics, a leading provider of capacitive touch pads. Utilising technologies and patents owned by this customer and our SMT and COB/COF production experience, we have become one of the leading capacitive touch pad suppliers for notebook computers by volume. From 2006 to 2009, we sold approximately 245.8 million capacitive touch pads in total. According to 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. We obtain the ICs for our touch pads on a consignment basis.

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

We believe we are also one of the key providers of fingerprint biometric products for use in notebook computers in terms of volume. 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 generally as a result of which interest in biometric products and authentication devices is increasing. Accordingly, we commenced the manufacturing of fingerprint biometric devices in the second half of 2008, utilising fingerprint sensors purchased externally from one of our customers to whom we 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

---

## FINANCIAL INFORMATION

---

the same customer, which have yet to be commercialised, with the aim to provide customers with affordable and convenient devices to protect personal data against possible loss or leakage while using consumer electronics.

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 distinguishing 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.

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

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

Our Group has obtained qualification certifications and passed regular audits from a range of ODMs/OEMs of notebook computers and consumer electronics brands which utilise capacitive touch pads manufactured by us. The qualification process is costly and time-consuming which we believe, presents a market entry barrier for potential competing capacitive touch product manufacturers and impediment for our customers to turn to alternative manufacturing services providers.

We have also obtained accreditations including ISO 9001:2008 in respect of our quality management and ISO 14001:2004 in respect of our environmental management systems. We have received CE and FCC certifications in respect of our fingerprint segment and have also been awarded with certificates of compliance from international conformity assessment authorities. Furthermore, we have also obtained ISO accreditations for our other products.

We started our business as a manufacturing services provider of primarily capacitive touch pads utilising the intellectual properties and underlying patents and technologies licensed from our customers. In recent years, we have progressed further into developing our own R&D capabilities and devoting additional resources in technological advancement. In the last two years, our R&D team achieved technological breakthroughs in developing various new fingerprint applications and standalone product designs. Such breakthroughs 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.

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

---

## FINANCIAL INFORMATION

---

United States. We received the Innovative Knowledge Enterprise Award from the Hong Kong Productivity Council in December 2009 as recognition of our successful implementation of intellectual property management. In October 2009, we were awarded the International Forum Design Award for our G3 fingerprint sensor mouse.

### *Going forward*

Envisaging continuing growth of the capacitive touch interface market and with a view to strengthening our long term customer relationships, we aim to maintain our focus on capacitive touch products as our main and stable source of revenue and within the capacitive touch product segment, we plan to focus more on capacitive touch screen modules. As stated in the section headed “Use of proceeds” in this prospectus, we plan to apply approximately 26% of the net proceeds from the Global Offering to enhance and upgrade our production and testing equipment for capacitive touch screen related products for customers including Synaptics. In parallel, we will strive to reduce our dependence on one particular product segment by the manufacturing of fingerprint biometric devices, wireless charging devices and lighting source products which we believe have potentials for growth.

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

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

### **BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

Prior to the Global Offering, the companies comprising our Group underwent the Reorganisation to rationalise our corporate structure in preparation for the Global Offering, and as a result our Company became the holding company of our Group. Please refer to the section headed “Statutory and general information – The reorganisation” in Appendix VI to this prospectus for details. The Reorganisation has been accounted for as a reorganisation of business under common control using the principle of merger accounting. Accordingly the financial information prepared presents the consolidated results of operation, cashflow and financial position of our Group as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of incorporation or establishment of the relevant member(s) of our Group, whichever is earlier.

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

---

## FINANCIAL INFORMATION

---

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

#### **Product mix**

During the Track Record Period, capacitive touch products were our major revenue driver, which accounted for approximately 91.2%, 96.3%, 77.6%, and 57.3%, respectively, of our total revenue. During the Track Record Period, our overall gross profit margins were approximately 22.6%, 21.9%, 29.1%, and 28.1%, respectively.

Our gross profit margins are partially affected by the proportion of sales of our products with higher gross profit margins compared to sales of our products with lower gross profit margins. Our fingerprint biometric devices, lighting source products and wireless charging devices commanded higher gross profit margins (approximately 36.7%, 37.4% and 29.9%, respectively) compared to capacitive touch products (approximately 23.7%) in the period ended 30 June 2010. Going forward, we may continue to adjust our product mix in response to demand and pricing for each product.

#### **Increase in production capacity**

In order to expand our production lines, we relocated our production facilities from Hong Kong to Heshan City. Since then, we have been expanding the scale of our operations, especially through the expansion of our production facilities in Heshan City. Our capital expenditures for property, plant and equipment for each of the years ended 31 December 2007, 2008 and 2009 and the period ended 30 June 2010, were approximately HK\$37.9 million, HK\$93.9 million, HK\$133.3 million and HK\$68.7 million, respectively. The increase in our capital expenditures for property, plant and equipment was mainly due to the expansion of our production facilities to accommodate more production lines, as well as the purchase of SMT machines during the Track Record Period. Going forward, we expect that capital expenditure increases relating to the expansion of our production capacity should have a positive impact on our results of operations.

#### **Costs of raw materials**

Costs of raw materials represent a significant portion of our cost of sales. For each of the three years ended 31 December 2009 and the six months ended 30 June 2010, such costs represented approximately 82.8%, 79.5%, 77.2% and 80.6%, respectively, of our cost of sales. As such, any significant fluctuation in the price of raw materials may have a significant impact on our profitability.

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

---

## FINANCIAL INFORMATION

---

### Market competition

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

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

### Taxation

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

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

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

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

### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial position and results of operations as included in this prospectus is based on the consolidated financial statements prepared using the significant accounting policies set forth in Note 4 to the Accountant's Report set out in Appendix I to this prospectus, which conform with the HKFRS. The critical accounting estimates and judgements that

---

## FINANCIAL INFORMATION

---

we use in applying our accounting policies are set out in Note 6 to the Accountant's Report set out in Appendix I to this prospectus. Such estimates and judgement are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions or conditions.

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

### **Revenue recognition**

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

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

(a) Sales of goods

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

(b) Interest income

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

(c) Sundry income

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

### **Property, plant and equipment**

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

---

## FINANCIAL INFORMATION

---

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

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

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

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

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

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

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

### **Intangible assets**

#### ***(a) Trademarks and patents***

Separately acquired trademarks and patents are shown at historical cost. Trademarks and patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and patents over their estimated useful lives.

#### ***(b) Research and developments costs***

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;



---

## FINANCIAL INFORMATION

---

- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are recognised as part of the product include the product development employee costs. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Product development costs recognised as assets are amortised over their estimated useful lives of three years.

### **Inventories**

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

### **Trade and other receivables**

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



## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

The following table presents selected financial data from our Group's consolidated income statement for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, which are derived from, and should be read in conjunction with, the consolidated financial information set forth in the Accountant's Report included in Appendix I to this prospectus. As more fully described in the Accountant's Report included as Appendix I to this prospectus, the financial information was prepared in accordance with HKFRS.

	Year ended 31 December			Six months ended	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue	674,293	749,788	888,348	327,355	668,705
Cost of sales	(521,845)	(585,701)	(629,802)	(248,397)	(481,041)
Gross profit	152,448	164,087	258,546	78,958	187,664
Other income/(losses) – net	19,045	(443)	1,198	256	(35)
Distribution costs	(6,262)	(4,242)	(6,135)	(2,429)	(5,168)
Administrative expenses	(57,116)	(57,926)	(81,727)	(40,500)	(52,277)
Operating profit	108,115	101,476	171,882	36,285	130,184
Finance income	539	227	265	240	23
Finance costs	(11,253)	(4,780)	(8,454)	(3,148)	(7,479)
Finance costs – net	(10,714)	(4,553)	(8,189)	(2,908)	(7,456)
Profit before income tax	97,401	96,923	163,693	33,377	122,728
Income tax expense	(17,775)	(10,878)	(10,563)	(3,004)	(18,415)
Profit for the year/period	<u>79,626</u>	<u>86,045</u>	<u>153,130</u>	<u>30,373</u>	<u>104,313</u>
Attributable to:					
Equity holders of our Company	79,626	86,045	151,655	30,373	104,313
Minority interests	–	–	1,475	–	–
	<u>79,626</u>	<u>86,045</u>	<u>153,130</u>	<u>30,373</u>	<u>104,313</u>
Earnings per share for profit attributable to equity holders of the Company					
– basic (expressed in HK cents per share)	<u>3.70</u>	<u>4.00</u>	<u>7.05</u>	<u>1.41</u>	<u>4.85</u>
– diluted (expressed in HK cents per share)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividends	<u>51,000</u>	<u>–</u>	<u>51,000</u>	<u>5,000</u>	<u>15,390</u>

## FINANCIAL INFORMATION

### PRINCIPAL INCOME STATEMENT COMPONENTS

#### Revenue

We derive our revenue principally from the manufacture and sale of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products. Our total revenue increased from HK\$674.3 million for the year ended 31 December 2007 to HK\$888.3 million for the year ended 31 December 2009, representing a CAGR of 14.8%. For the six months ended 30 June 2010, our total revenue increased from HK\$327.4 million to HK\$668.7 million or by 104.3% when compared with the six months ended 30 June 2009.

The following table sets out the breakdown of our revenue and the percentage of total revenue for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010:

Revenue from	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
	<i>(unaudited)</i>									
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 <sup>Note 2</sup>	18,604	2.7%	22,712	3.1%	36,497	4.1%	15,141	4.6%	53,051	7.9%
<b>Total</b>	<b><u>674,293</u></b>	<b><u>100%</u></b>	<b><u>749,788</u></b>	<b><u>100%</u></b>	<b><u>888,348</u></b>	<b><u>100%</u></b>	<b><u>327,355</u></b>	<b><u>100%</u></b>	<b><u>668,705</u></b>	<b><u>100%</u></b>

*Note:*

1. Lighting source products consists of plasma light projectors and plasma street lamps.
2. Other products include automotive devices, medical equipment and electrical components for mining/drilling equipment.

Revenue derived from our capacitive touch products increased from approximately HK\$614.7 million for the year ended 31 December 2007 to approximately HK\$689.4 million for the year ended 31 December 2009, representing a CAGR of 5.9%. For the six months ended 30 June 2010, revenue from our capacitive touch products was approximately HK\$383.3 million, represented an increase of approximately HK\$75.2 million, or 24.4%, when compared with that of 30 June 2009. The capacitive touch products we produced mainly include capacitive touch pads, multi-media buttons and capacitive touch screen controllers.

Prior to the Track Record Period, the average selling price of our capacitive touch pads (on a per unit basis) decreased by 11.5% from the year ended 31 December 2004 to the year ended 31 December 2005, and the average selling price of capacitive touch pads (on a per unit basis) decreased by 7.6% in the year ended 31 December 2006 due to the reduction in sizes of PCBs used in capacitive touch pads as a result of technological advancement. During the Track Record Period, there was a gradual decrease in the average selling price of our capacitive touch pads (on a per unit basis). The decrease in the average selling price of our capacitive touch pads (on a per unit basis) was mainly attributable to factors including general industry price trends, the reduction in sizes of PCBs used in capacitive touch pads due to technological advancement, the general reduction in prices of raw materials for producing capacitive touch products, as well as increased competition in

---

## FINANCIAL INFORMATION

---

the capacitive touch products market. Prior to the Track Record Period, we recorded an increase of 9.1% in the sales volume of capacitive touch pads between the years ended 31 December 2004 and 2005, which was in line with the increasing worldwide demand of touch pads during the year ended 31 December 2005. In relation to the sales volume of our capacitive touch pads during the year ended 31 December 2006, there was an increase of 9.0% in the sales volume when compared to the year ended 31 December 2005, which was in line with the increasing worldwide demand of touch pads during the year ended 31 December 2006. For a detailed analysis of the fluctuations in sales volume and average selling price of our capacitive touch pads (on a per unit basis) during the Track Record Period, please refer to the sections headed “Period to period comparison of results of operations – Year ended 31 December 2009 compared to year ended 31 December 2008 – Revenue”, “Period to period comparison of results of operations – Year ended 31 December 2008 compared to year ended 31 December 2007 – Revenue”, and “Period to period comparison of results of operations – Six months ended 30 June 2010 compared to six months ended 2009 – Revenue” below in this section.

Despite the decreasing trend in the average selling price of our capacitive touch products (on a per unit basis) during the Track Record Period, the gross profit margins of our capacitive touch products remained relatively stable at approximately 20.8% and 21.1% respectively for the years ended 31 December 2007 and 2008, and the same increased to 27.6% for the year ended 31 December 2009. For the six months ended 30 June 2009 and 30 June 2010, the gross profit margin of our capacitive touch products are 23.5% and 23.7% respectively. For detailed analysis of our gross profit margin during the Track Record Period, please refer to the section headed “Principal income statement components – Gross profit and gross profit margin” of this section. We consider the decreasing price trend for capacitive touch products (on a per unit basis) during the Track Record Period to be in line with the electronics industry norm – as a technology becomes increasingly mature and more commonly applied, the relevant products tend to experience a gradual decrease in price as a result of lower production costs. Further, there were increased demand to our smaller size capacitive touch products for the year ended 31 December 2009. We do not consider the decrease in selling prices in capacitive touch products (on a per unit basis) to pose a risk to our Group’s business or future financial position, since we have improved our production efficiency and have also taken various cost reduction initiatives to lower our production costs.

Capacitive touch products represented our core product and revenue driver during the Track Record Period, which amounted to approximately 91.2%, 96.3%, 77.6% and 57.3% of our total revenue, respectively. Since 2007, we have been gradually increasing efforts to diversify our product mix including new capacitive touch products, fingerprint biometric devices, lighting source products and wireless charging devices, which command higher profit margins.

Our diversification into other products led to significant increases in sales during the six months ended 30 June 2010 significantly. Revenue derived from our fingerprint biometric devices for the six months ended 30 June 2010 increased to HK\$67.2 million, from HK\$3.6 million in the six months ended 30 June 2009. The significant increase was primarily due to substantially increased sales volumes attributable to increased orders from existing customers in the six months ended 30 June 2010, as driven by increased market demand for fingerprint products.

Revenue derived from lighting source products amounted to approximately HK\$41.0 million, HK\$4.8 million, HK\$17.8 million and HK\$42.3 million for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. During the year ended 31 December 2008, the main product for the lighting source products segment expanded from plasma light

## FINANCIAL INFORMATION

projectors to include plasma lighting rear projection TV, which had insignificant revenue contribution. For the year ended 31 December 2009, the increase in revenue derived from lighting source products was mainly due to the increase in sales volume for plasma street lamps and plasma light projectors. For the six months ended 30 June 2010, the increase in revenue from lighting source products was primarily due to the significant increase in average price per unit for plasma street lamps.

In August 2009, we received our first order for our newly developed wireless charging devices. Revenue derived from our wireless charging devices segment amounted to approximately HK\$102.4 million during the year ended 31 December 2009 and approximately HK\$122.9 million during the six months ended 30 June 2010.

For a detailed analysis of the fluctuations in revenue from sales of capacitive touch products, fingerprint biometric devices, lighting source products, wireless charging devices and other products, please refer to the sections headed “Period to period comparison of results of operations – Year ended 31 December 2009 compared to year ended 31 December 2008 – Revenue”, “Period to period comparison of results of operations – Year ended 31 December 2008 compared to year ended 31 December 2007 – Revenue” and “Period to period comparison of results of operations – Six months ended 30 June 2010 compared to six months ended 2009 – Revenue” below in this section.

### Cost of sales

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

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
	(unaudited)									
Cost of raw materials	431,850	82.8%	465,494	79.5%	486,387	77.2%	185,625	74.7%	387,714	80.6%
Direct labour costs	50,479	9.7%	75,387	12.9%	84,964	13.6%	37,561	15.1%	63,544	13.2%
Depreciation	14,043	2.7%	14,400	2.5%	26,715	4.2%	10,820	4.4%	17,371	3.6%
Consumable parts	5,620	1.1%	11,764	2.0%	17,681	2.8%	6,087	2.5%	2,748	0.6%
R&D expenses (production)	2,283	0.4%	2,045	0.3%	–	0.0%	–	0.0%	–	0.0%
Others	17,570	3.3%	16,611	2.8%	14,055	2.2%	8,304	3.3%	9,664	2.0%
<b>Total</b>	<b>521,845</b>	<b>100%</b>	<b>585,701</b>	<b>100%</b>	<b>629,802</b>	<b>100%</b>	<b>248,397</b>	<b>100.0%</b>	<b>481,041</b>	<b>100.0%</b>

## FINANCIAL INFORMATION

### Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin for our products for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
<b>Gross profit</b>	<u>152,448</u>	<u>164,087</u>	<u>258,546</u>	<u>78,958</u>	<u>187,664</u>
	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	(%)	(%)	(%)	(%)	(%)
				<i>(unaudited)</i>	
Capacitive touch products	20.8	21.1	27.6	23.5	23.7
Fingerprint biometric devices	N/A	33.3	42.2	39.6	36.7
Lighting source products	35.0	35.8	37.9	33.3	37.4
Wireless charging devices	N/A	N/A	29.8	N/A	29.9
Others	55.4	42.9	35.2	33.1	37.0
<b>Overall</b>	22.6	21.9	29.1	24.1	28.1

Increase in our gross profit was driven primarily by an increase in the proportion of our non-touch products and the increase in gross profit margin from our capacitive touch products. Gross profit margin for our capacitive touch products increased from approximately 20.8% for the year ended 31 December 2007 to approximately 21.1% for the year ended 31 December 2008 and then further increased to 27.6% for the year ended 31 December 2009. Such increase was due to the fact that our Group negotiated with its suppliers during 2009 for bulk purchase discount of raw materials, which had in turn resulted in a decrease in average unit production cost, the effect of which outweighed the decrease in average selling price (on a per unit basis). The said increase in gross profit margins was also a result of the increased sales of capacitive touch screen products during the year ended 31 December 2009.

The lower gross profit margin for the six months ended 30 June 2010 over the year ended 31 December 2009 was due to a decrease in the average selling price of our capacitive touch pads, an increased direct labour costs and depreciation in first half of 2010 which led to higher cost of sales.

Our overall gross profit margin decreased from approximately 22.6% for the year ended 31 December 2007 to approximately 21.9% for the year ended 31 December 2008 and then increased to approximately 29.1% for the year ended 31 December 2009. For the six months ended 30 June 2010, overall gross profit margin remained relatively stable at 28.1%.

For the year ended 31 December 2008, our overall gross profit margin dropped slightly from the immediately preceding year since there was a shortage of staff in the labour market in 2008, resulting in a higher recruitment costs and an increase in direct labour costs for the year ended

## FINANCIAL INFORMATION

31 December 2008. For the year ended 31 December 2009, the significant increase in gross profit margins was mainly due to our expanded product portfolio and our engagement in the production of more lighting source products, fingerprint biometric devices and wireless charging devices, all of which carry higher gross profit margins.

### Other income/(losses) – net

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

During the Track Record Period, we had net other income of approximately HK\$19.0 million, net other losses of HK\$0.4 million, net other income of HK\$1.2 million and net other losses of HK\$0.04 million. The net other income for the year ended 31 December 2007 was mainly derived from the gain on disposal of financial assets at fair value (mainly investments in listed shares) of approximately HK\$25.1 million during that period.

### Distribution costs

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

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our distribution costs were approximately HK\$6.3 million, HK\$4.2 million, HK\$6.1 million and HK\$5.2 million, respectively.

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
							(unaudited)			
Freight and transportation costs	6,101	97.4%	3,872	91.3%	5,648	92.1%	2,402	98.8%	4,179	80.9%
Promotional expenses	70	1.1%	307	7.2%	246	4.0%	26	1.1%	356	6.9%
Others	91	1.5%	63	1.5%	241	3.9%	1	0.1%	633	12.2%
Total	<u>6,262</u>	<u>100%</u>	<u>4,242</u>	<u>100%</u>	<u>6,135</u>	<u>100%</u>	<u>2,429</u>	<u>100%</u>	<u>5,168</u>	<u>100%</u>

### Administrative expenses

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

## FINANCIAL INFORMATION

Administrative expenses were approximately HK\$57.1 million for the year ended 31 December 2007 and remained stable at approximately HK\$57.9 million for the year ended 31 December 2008, but subsequently increased to approximately HK\$81.7 million for the year ended 31 December 2009. For the six months ended 30 June 2010, administrative expenses were HK\$52.3 million. The increase in administrative expenses for the year ended 31 December 2009 was mainly attributable to the combined effects of increases in administrative staffs costs, depreciation, office expenses and R&D expenses (administrative) during this period.

	Year ended 31 December				Six months ended 30 June					
	2007		2008		2009		2009		2010	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
							(unaudited)			
Staff costs	25,283	44.3%	22,712	39.2%	34,162	41.8%	18,383	45.4%	25,782	49.3%
Office expenses	7,777	13.6%	6,228	10.8%	8,418	10.3%	4,086	10.1%	3,125	6.0%
R&D expenses (administrative)	7,395	12.9%	10,190	17.6%	11,091	13.6%	7,212	17.8%	2,338	4.5%
Depreciation	4,187	7.3%	4,848	8.4%	6,240	7.6%	2,919	7.2%	4,497	8.6%
Travelling & entertainment expenses	3,399	6.0%	3,232	5.6%	5,072	6.2%	2,089	5.2%	2,735	5.2%
Rental and management fees	2,008	3.5%	2,238	3.9%	4,109	5.0%	1,217	3.0%	2,848	5.4%
Repair and maintenance	1,485	2.6%	554	1.0%	375	0.5%	56	0.1%	536	1.0%
Recruitment expenses	47	0.1%	173	0.3%	1,337	1.6%	642	1.6%	668	1.3%
Bank charges	656	1.1%	1,004	1.7%	1,840	2.3%	490	1.2%	1,817	3.5%
Insurance expenses	790	1.4%	372	0.6%	1,176	1.4%	436	1.1%	409	0.8%
Legal and Professional fees	226	0.4%	2,294	4.0%	1,953	2.4%	945	2.3%	657	1.3%
Amortisation of intangible assets	–	0.0%	–	0.0%	1,441	1.8%	–	0.0%	1,909	3.6%
Miscellaneous <sup>(Note 1)</sup>	3,863	6.8%	4,081	6.9%	4,513	5.5%	2,025	5.0%	4,956	9.5%
<b>Total</b>	<b>57,116</b>	<b>100%</b>	<b>57,926</b>	<b>100%</b>	<b>81,727</b>	<b>100%</b>	<b>40,500</b>	<b>100%</b>	<b>52,277</b>	<b>100%</b>

*Note:*

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

### Operating profit

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our operating profit was approximately HK\$108.1 million, HK\$101.5 million, HK\$171.9 million and HK\$130.2 million, respectively.

### Finance costs – net

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

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our net finance costs were approximately HK\$10.7 million, HK\$4.6 million, HK\$8.2 million and HK\$7.5 million, respectively.



---

## FINANCIAL INFORMATION

---

### Income tax expense

Hong Kong profits tax has been provided for at the rates of 17.5%, 16.5%, 16.5% and 16.5% on the estimated assessable profit for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

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

Our effective tax rates during the Track Record Period were 18.2%, 11.2%, 6.5% and 15.0%, respectively. The changes in the effective tax rate in 2008 and 2009 were caused by an increase in the profitability of the Group's subsidiary in the PRC and the reduction in the Hong Kong tax rate from 17.5% to 16.5% during the year ended 31 December 2008. The increase in our effective tax rate in the six months ended 30 June 2010 was caused by the end of the two year exemption period from PRC enterprise income tax as of 31 December 2009, after which World Fair Heshan, our PRC subsidiary, is eligible for a 50% tax reduction for three years.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six months ended 30 June 2010 compared to six months ended 30 June 2009

##### Revenue

Our revenue for the six months ended 30 June 2010 increased by HK\$341.4 million, or 104.3%, to HK\$668.7 million, compared with revenue of HK\$327.4 million derived in the six months ended 30 June 2009, primarily due to the increase in sales volume of our fingerprint biometric devices, lighting source products, wireless charging devices, and other segments in the second half of 2009 and the six months ended 30 June 2010 resulting from our diversification plan, as well as an increase in sales volume from our capacitive touch products.

Revenue derived from capacitive touch products increased from approximately HK\$308.1 million to HK\$383.3 million, or by 24.4%, from the six months ended 30 June 2009 compared with that derived from the six months ended 30 June 2010. This was primarily due to an increase in sales volume of our capacitive touch pads as well as an increase in the average selling price during the six months ended 30 June 2010 as compared with the six months ended 30 June 2009.

Revenue from our wireless charging devices increased to HK\$122.9 million in the six months ended 30 June 2010 from nil for the first six months ended 30 June 2009, primarily due to the launch of such products in the second half of 2009 and increased sales volumes of such products in the six months ended 30 June 2010.

Our diversification into other products led to significant increases in sales during the six months ended 30 June 2010 significantly. Revenue derived from our fingerprint biometric devices

---

## FINANCIAL INFORMATION

---

for the six months ended 30 June 2010 increased to HK\$67.2 million, from HK\$3.6 million in the six months ended 30 June 2009. The significant increase was primarily due to substantially increased sales volumes attributable to increased orders from existing customers in the six months ended 30 June 2010, as driven by increased market demand for fingerprint products. Please refer to the section headed “Industry Overview” for an overview of the fingerprint sensor market.

Revenue from our lighting source products increased to approximately HK\$42.3 million for the six months ended 30 June 2010 from HK\$0.5 million for the six months ended 30 June 2009, primarily due to the launch of our plasma street lamp products in the second half of 2009 and significant increase in average price per unit of these products in the six months ended 30 June 2010.

Revenue from other segments increased to HK\$53.1 million, or by 250.4% in the six months ended 30 June 2010 from HK\$15.1 million for the six months ended 30 June 2009, primarily due to increased sales volume of electronic devices for automotives to a new customer.

### **Costs of Sales**

Our costs of sales for the six months ended 30 June 2010 was approximately HK\$481.0 million, representing an increase of HK\$232.6 million or 93.7%, from HK\$248.4 million in the six months ended 30 June 2009. Such increase was primarily due to increased raw materials costs in line with increased sales volume, increased direct labour costs related to additions to staff head count, as well as increased depreciation resulting from the additional machinery and factory equipment acquired in anticipation of expanding production. The increase in overall cost of sales was proportionally less than the increase in our total revenue primarily due to the discounts we obtained for raw materials as a result of bulk purchases.

### **Gross profit**

Gross profit for the six months ended 30 June 2010 was approximately HK\$187.7 million, representing an increase of HK\$108.7 million, or 137.7%, from HK\$79.0 million for the six months ended 30 June 2009. Our gross profit margin for the six months ended 30 June 2010 was 28.1%, compared with 24.1% for the six months ended 30 June 2009. The increase in gross profit margin was primarily due to the increased sales of products with higher gross profit margins, including fingerprint biometric devices, lighting products and wireless charging devices, which had gross profit margins of 36.7%, 37.4% and 29.9%, respectively.

### **Other income/(losses) – net**

Net other losses for the six months ended 30 June 2010 was approximately HK\$40,000, compared to a net income of HK\$0.3 million for the six months ended 30 June 2009.

### **Distribution costs**

Distribution costs for the six months ended 30 June 2010 were approximately HK\$5.2 million, representing an increase of HK\$2.7 million, or 112.7%, as compared to HK\$2.4 million for the six months ended 30 June 2009. Such increase was primarily due to increased freight and transportation costs in line with increased sales volume.

---

## FINANCIAL INFORMATION

---

### Administrative expenses

Administrative expenses for the six months ended 30 June 2010 were approximately HK\$52.3 million, representing an increase of HK\$11.8 million, or 29.1%, as compared to HK\$40.5 million for the six months ended 30 June 2009. Such increase was primarily due to the recruitment of more administrative staff in anticipation of our Group's expansion and the amortisation of intangible assets.

### Finance costs - net

Our net finance costs for the six months ended 30 June 2010 were approximately HK\$7.5 million, representing an increase of HK\$4.5 million, or 156.4%, from HK\$2.9 million for the six months ended 30 June 2009. Such increase primarily was due to an increase in interest expenses on outstanding bank loans balance.

### Profit before income tax

As a result of the aforementioned factors, profit before income tax for the six months ended 30 June 2010 was approximately HK\$122.7 million, representing an increase of approximately HK\$89.4 million, or 267.7%, from HK\$33.4 million for the six months ended 30 June 2009.

### Income tax expense

Income tax expense for the six months ended 30 June 2010 was approximately HK\$18.4 million, representing an increase of approximately HK\$15.4 million, or 513.0%, from HK\$3.0 million for the six months ended 30 June 2009. Our effective tax rate increased from 9.0% for the six months ended 30 June 2009 to 15.0% for the six months ended 30 June 2010. The higher effective tax rate during such period was caused by the lapse of the two year exemption period from PRC enterprise income tax as of 31 December 2009, after which World Fair Heshan, our PRC subsidiary, is eligible for a 50% reduction of enterprise income tax for three financial years.

### Profit for the period

For the six months ended 30 June 2010, our profit was approximately HK\$104.3 million, representing an increase of approximately HK\$73.9 million, or 243.4%, from approximately HK\$30.4 million for the six months ended 30 June 2009.

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

#### Revenue

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

Revenue derived from capacitive touch products decreased from approximately HK\$722.2 million to HK\$689.4 million, or by 4.5%, from the year ended 31 December 2008 to

---

## FINANCIAL INFORMATION

---

31 December 2009. Despite the increase in sales volume of 3.1% of our capacitive touch pads during 2009, the net effect of a decrease in sales price per unit resulted in a decline in overall revenue from capacitive touch products.

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

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

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

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

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

### **Cost of sales**

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

### **Gross profit**

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

---

## FINANCIAL INFORMATION

---

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

### **Other income/(losses) – net**

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

### **Distribution costs**

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

### **Administrative expenses**

Administrative expenses for the year ended 31 December 2009 were approximately HK\$81.7 million, representing an increase of HK\$23.8 million, or 41.1%, as compared to HK\$57.9 million for the year ended 31 December 2008. Such increase was due to the recruitment of more senior management staff in anticipation of our Group's expansion and the recognition of expenses relating to the Share Incentive Scheme. The combined effect was a significant increase of HK\$11.5 million in staff costs. Moreover, our R&D expenses also increased by HK\$0.9 million due to increased expenditures on mainly new technologies for products such as fingerprint applications, capacitive touch screen modules, multi-media buttons and lighting sources. Development costs of HK\$11.2 million have been capitalised as intangible assets, details of which are disclosed in the section headed "Intangible assets" of this section. Our rental and management expenses during the year ended 31 December 2009 were approximately HK\$4.1 million, representing an increase of approximately HK\$1.9 million compared to the year ended 31 December 2008, which was mainly attributable to the additional rents we paid in relation to our new offices in Hong Kong and Taiwan. The increase in office expenses from approximately HK\$6.2 million during the year ended 31 December 2008 to approximately HK\$8.4 million during the year ended 31 December 2009 was mainly due to the opening of our Taiwan office during the year ended 31 December 2009.

### **Finance costs – net**

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

### **Profit before income tax**

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

---

## FINANCIAL INFORMATION

---

### Income tax expense

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

### Profit for the year

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

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

#### Revenue

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

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

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

#### Cost of sales

Cost of sales for the year ended 31 December 2008 was HK\$585.7 million, an increase of HK\$63.9 million, or 12.2%, compared with HK\$521.8 million for the year ended 31 December 2007.

---

## FINANCIAL INFORMATION

---

Such increase was primarily due to an increase in our direct labour costs from HK\$50.5 million for the year ended 31 December 2007 to HK\$75.4 million for the year ended 31 December 2008 as a result of an increase in staff head count and staff wages. The increase in staff head count also resulted in an increase in consumable parts (which include the cost of staff uniform) of approximately HK\$6.1 million.

### **Gross profit**

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

### **Other income/(losses) – net**

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

### **Distribution costs**

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

### **Administrative expenses**

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

### **Finance costs – net**

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



---

## FINANCIAL INFORMATION

---

### Profit before income tax

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

### Income tax expense

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

### Profit for the year

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

## LIQUIDITY AND CAPITAL RESOURCES

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

### Cash flow

	Year ended 31 December			Six months ended	
	2007	2008	2009	30 June	2010
	HK\$'000	HK\$'000	HK\$'000	2009	2010
				HK\$'000	HK\$'000
				(unaudited)	
Net cash generated from operating activities	80,373	148,450	26,668	4,010	42,450
Net cash generated from/(used in) investing activities	31,501	(160,783)	(82,256)	(42,854)	(75,925)
Net cash (used in)/generated from financing activities	(102,250)	24,141	72,578	56,254	21,447
Net increase/(decrease) in cash and cash equivalents	9,624	11,808	16,990	17,410	(12,028)
Cash and cash equivalents at beginning of the year/period	(8,802)	822	12,630	12,630	29,620
Cash and cash equivalents at end of the year/period	822	12,630	29,620	30,040	17,592

---

## FINANCIAL INFORMATION

---

### **Net cash generated from operating activities**

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

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

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

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

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

Net cash generated from operating activities for the six months ended 30 June 2010 amounted to approximately HK\$42.5 million, while our profit before income tax for the same period was approximately HK\$122.7 million. The difference of approximately HK\$80.2 million was primarily attributable to an increase in inventories of approximately HK\$83.1 million, an increase in trade receivables of approximately HK\$34.7 million, and an increase in prepayments, deposits and other receivables of approximately HK\$27.4 million. These negative changes were partially offset by an increase in trade and bills payables of approximately HK\$31.3 million and an increase in accruals and other payables of approximately HK\$20.5 million.

### **Net cash generated from/(used in) investing activities**

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

---

## FINANCIAL INFORMATION

---

Directors of approximately HK\$22.3 million and the proceeds from disposal of financial assets of HK\$40.0 million.

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

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

Net cash used in investing activities for the six months ended 30 June 2010 amounted to approximately HK\$75.9 million, which was primarily attributable to the purchase of property, plant and equipment of approximately HK\$62.7 million and additions of intangible assets of approximately HK\$12.0 million.

### **Net cash (used in)/generated from financing activities**

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

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

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

Net cash generated from financing activities for the six months ended 30 June 2010 amounted to approximately HK\$21.4 million, which was primarily attributable to an increase in bank borrowings of approximately HK\$158.7 million, which was partially offset by the repayments of bank borrowings of HK\$124.3 million.

---

## FINANCIAL INFORMATION

---

### MAJOR FINANCIAL RATIOS

	Year ended 31 December			Six months ended
	2007	2008	2009	30 June 2010
Trade receivable turnover (days) <sup>1</sup>	25	27	56	67
Trade and bills payable turnover (days) <sup>2</sup>	87	77	108	99
Inventory turnover (days) <sup>3</sup>	30	24	40	56
Gearing ratio <sup>4</sup>	47%	24%	41%	41%
Current ratio <sup>5</sup>	0.6	0.7	0.9	0.9
Return on equity <sup>6</sup>	124%	57%	62%	34%

*Notes:*

- 1 The trade receivable turnover days is calculated based on the average of the beginning and ending balance of trade receivables, net of provision on impairment, for the year/period divided by revenue during the year/period and multiplied by the number of days during the year/period.
- 2 The trade payable turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year/period divided by total cost of sales for the year/period, and multiplied by the number of days during the year/period.
- 3 Inventory turnover days is calculated based on the average of the beginning and ending balance of inventories for the year/period divided by cost of sales for the year/period, and multiplied by the number of days during the year/period.
- 4 Gearing ratio is calculated by dividing net debt by total capital as at the end of the respective years/period multiplied by 100%. Net debt is calculated as total borrowings including finance lease obligations less cash and cash equivalents and pledged bank deposits.
- 5 The current ratio is calculated by dividing total current assets by total current liabilities as at the end of the respective years/period.
- 6 Return on equity equals the profit for the year/period divided by owner's equity attributable to our Company's equity holders as at the end of the respective years/period.

### Trade receivables turnover

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

Trade receivables turnover slightly increased from 25 days for the year ended 31 December 2007 to 27 days for the year ended 31 December 2008. Trade receivables turnover increased to 56 days for the year ended 31 December 2009, mainly due to the extension of the credit period granted to one of our major customers from 30 days to 60 days. For the six months ended 30 June 2010, trade receivables turnover days increased to 67 days, it was mainly due to an increasing amount of sales to customers of non-touch products with a credit period of 90 days.

## FINANCIAL INFORMATION

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	55,924	46,027	147,400	137,175
31 to 60 days	1,536	500	73,208	73,938
61 to 90 days	6,350	22	6,715	16,647
91 to 120 days	52	–	598	27,351
Over 120 days	153	153	11	7,475
	64,015	46,702	227,932	262,586
Less: Provision for impairment of receivables	(153)	(153)	–	–
<b>Total:</b>	<b>63,862</b>	<b>46,549</b>	<b>227,932</b>	<b>262,586</b>

The substantial increase in trade receivables from approximately HK\$46.5 million as at 31 December 2008 to approximately HK\$227.9 million as at 31 December 2009 was mainly attributable to the increase in the revenue of our Group from approximately HK\$119.3 million for the two months ended 31 December 2008 to approximately HK\$258.3 million for the two months ended 31 December 2009, which is mainly attributable to the sales of new products (e.g. fingerprint biometric devices, wireless charging devices and plasma street lamps), and the extension of credit period for one of our major customers from 30 days in 2008 to 60 days starting from July 2009 as a result of commercial discussions between such customer and our Group. We believe that it is reasonable and in line with the industry practice for our Group to offer such customer a 60 days' credit period. The increase in trade receivables from approximately HK\$227.9 million as at 31 December 2009 to HK\$262.6 million as at 30 June 2010 was mainly due to the increased sales to customers of non-touch products with a credit period of 90 days. Up to the Latest Practicable Date, approximately 88.4% of the trade receivables as at 30 June 2010 was settled. In particular, of the trade receivables aged over 90 days, approximately HK\$34.2 million, representing 98.3% of such trade receivables, was settled.

### Trade and bills payables turnover

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

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

Turnover of trade and bills payables days increased from 77 days for the year ended 31 December 2008 to 108 days for the year ended 31 December 2009 and decreased slightly to 99 days for the period ended 30 June 2010. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the increase in trade payables turnover was in line with the increasing trend of our trade receivables turnover for the year ended 31 December 2009.

## FINANCIAL INFORMATION

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

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
0 to 30 days	38,569	61,950	105,132	86,630
31 to 60 days	41,524	31,279	92,826	100,894
61 to 90 days	30,720	26,579	40,436	56,311
91 to 120 days	7,034	2,683	9,715	22,120
Over 120 days	4,311	2,235	316	13,731
	<u>122,158</u>	<u>124,726</u>	<u>248,425</u>	<u>279,686</u>

Up to 29 October 2010, approximately 95% of the trade and bills payables as at 30 June 2010 was settled.

### Inventory turnover

Our inventories mainly comprise 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 level for our production. During the Track Record Period, our inventory turnover remained reasonably short and stable and did not experience material fluctuations. The inventory turnover days decreased from 30 days for the year ended 31 December 2007 to 24 days for the year ended 31 December 2008. Our inventory turnover days increased to 40 days during the year ended 31 December 2009, and to 56 days as of 30 June 2010. These increases were attributable to additional raw materials purchased for production, in particular of the non-touch products, in anticipation of an increasing in sales volume.

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

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Raw materials	22,534	17,369	70,469	129,035
Work in progress	9,600	7,805	17,504	24,540
Finished goods	<u>12,286</u>	<u>7,754</u>	<u>17,718</u>	<u>35,262</u>
<b>Total:</b>	<u>44,420</u>	<u>32,928</u>	<u>105,691</u>	<u>188,837</u>

Up to 29 October 2010, all of the inventory as at 30 June 2010 was utilised.

---

## FINANCIAL INFORMATION

---

### Gearing ratio

Our gearing ratio decreased from 47% as at 31 December 2007 to 24% as at 31 December 2008 because of an increase in total equity as a result of business growth. Our gearing ratio increased from 24% as at 31 December 2008 to 41% as at 31 December 2009, mainly due to an increase in bank borrowings which was in line with the expansion of our business during this period. As at 30 June 2010, our gearing ratio remained stable at 41%.

### Current ratio

Our current ratio as at 31 December 2007, 2008 and 2009 and as at 30 June 2010 remained stable at 0.6, 0.7, 0.9 and 0.9, respectively.

### Return on equity

Return on equity decreased from 124% for the year ended 31 December 2007 to 57% for the year ended 31 December 2008 due to an increase in owner's equity attributable to our Company's equity holders for the year ended 31 December 2008 as a result of an increase in total equity resulting from retained earnings accumulated during this period. The increase in return on equity to 62% for the year ended 31 December 2009 was mainly attributable to the increase in net profit during that period. For the six months ended 30 June 2010, return on equity was 34% (with the annualised figure amounting to approximately 68% for illustration purpose).

### Intangible assets

During the Track Record Period, our R&D expenses and capitalised development costs, trademarks and patents fees amounted to approximately HK\$9.7 million, HK\$12.2 million, HK\$23.9 million and HK\$14.3 million, respectively. Our intangible assets mainly consisted of capitalised development costs with regards to fingerprint biometric devices and lighting source products. The development costs as at 30 June 2010 of approximately HK\$21.4 million mainly included employee costs for the R&D team, amounted to approximately HK\$19.3 million, together with expenses relating to the application of patents, designs and trademarks which amounted to approximately HK\$2.1 million. In particular, addition of capitalised development costs, trademarks and patents fees amounted to approximately HK\$11.9 million for the six months ended 30 June 2010 were mainly related to new fingerprint biometric products which we plan to commercialise under our own "C-touch" brand and improving the existing plasma street lamps with the initial sales of which began in November 2009. Such intangibles assets are amortised over their estimated useful life of three years on a straight-line basis.

Our Group has previously estimated the economic life of intangible assets, including development costs, to be around five years. Our Directors have revisited this estimate for the period of the six months ended 30 June 2010 by making reference to the latest market condition, technology advancement, product life cycle of the related products and have determined that the estimated economic life of the Group's intangible assets to be three years. The reassessment of the estimated economic life of intangible assets has led to an increase in amortisation charge of HK\$0.3 million for the year ended 31 December 2009. There were no impact in 2007 and 2008 as there were no capitalisation of development costs for the two years.



## FINANCIAL INFORMATION

### Prepayments, deposits and other receivables

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
<b>Current</b>				
Prepayments for purchase of inventories	41	218	11,670	1,662
Utility and other deposits	1,330	1,217	4,272	3,379
Value-added tax recoverable	1,834	3,282	10,870	17,692
Others <sup>(Note 1)</sup>	1,277	1,512	5,989	9,386
	<u>4,482</u>	<u>6,229</u>	<u>32,801</u>	<u>32,119</u>
<b>Non-current</b>				
Prepayment for purchase of property, plant and equipment	<u>1,887</u>	<u>1,725</u>	<u>3,299</u>	<u>9,593</u>

*Note:*

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

Our prepayments for purchase of inventories were approximately HK\$41,000, HK\$0.2 million, HK\$11.7 million and HK\$1.7 million as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The significant increase in prepayments for purchase of inventories arose mainly from the increase in sales of non-touch products that led to an increase in purchases from new suppliers which requires our prepayment of purchase monies as at 31 December 2009. The prepayments for purchase of inventories then dropped to HK\$1.7 million as at 30 June 2010 due to the revision of term with the above mentioned suppliers who no longer require us to provide prepayments for purchase. As at the Latest Practicable Date, the total prepayments for purchase of inventories of the Group as at 30 June 2010 has been substantially utilised.

Our utility and other deposits were approximately HK\$1.3 million, HK\$1.2 million, HK\$4.3 million and HK\$3.4 million as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively.

Our value-added tax recoverable was approximately HK\$1.8 million, HK\$3.3 million, HK\$10.9 million and HK\$17.7 million as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The increasing trend was primarily due to our purchase of additional raw materials for our expansion in production during the Track Record Period.

---

## FINANCIAL INFORMATION

---

### Financial assets at fair value through profit or loss

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Equity linked structure notes	1,947	1,056	–	–
Listed shares	–	–	1,403	1,141
	<u>1,947</u>	<u>1,056</u>	<u>1,403</u>	<u>1,141</u>

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

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

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

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

## FINANCIAL INFORMATION

### Balances with related parties

Details of the balances with related parties are as follows:

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Amounts due from related companies				
IT Growth Holdings Limited	–	6	–	–
Kick-Start Technology Limited	7	14	–	–
	<u>7</u>	<u>20</u>	<u>–</u>	<u>–</u>
Amounts due from/(to) directors				
Mr. Wong Kwok Fong	10,482	56,326	(369)	(12,963)
Ms. Ching Pui Yi	–	518	(245)	(412)
	<u>10,482</u>	<u>56,844</u>	<u>(614)</u>	<u>(13,375)</u>
Amount due to a related company				
World Fair Technology Holdings Limited	<u>10,434</u>	<u>10,421</u>	<u>–</u>	<u>–</u>

The related companies are companies beneficially owned by our Controlling Shareholders who are also our Directors. The balances with related companies and directors are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these balances approximate their fair values, which represent our Group's maximum exposure to credit risk at the respective balance sheet date. As at 30 June 2010, the amounts due to directors increased to approximately HK\$13.4 million mainly due to a temporary advance from Directors to provide additional cash flow for our Group. Our Directors expect that all outstanding balances with related parties will be settled before the Listing.

### Pledged bank deposits

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Pledged bank deposits	<u>19,088</u>	<u>56,423</u>	<u>83,431</u>	<u>82,323</u>

As at 31 December 2007, 2008, 2009 and 30 June 2010, we had pledged bank deposits of approximately HK\$19.1 million, HK\$56.4 million, HK\$83.4 million and HK\$82.3 million, respectively. The significant increase in pledged bank deposits during the Track Record Period was mainly due to the increase in our Group's banking facilities.

## FINANCIAL INFORMATION

### Bank borrowings

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
<b>Non-current</b>				
Bank loans	18,860	–	49,000	44,000
<b>Current</b>				
Bank loans	–	18,860	151,861	137,823
Bank overdrafts	178	–	6,437	55
Trust receipts loans	<u>2,973</u>	<u>60,385</u>	<u>28,279</u>	<u>81,774</u>
Total bank borrowings	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>	<u>263,652</u>

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

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Within one year	3,151	79,245	186,577	219,652
Between one and two years	18,860	–	27,000	22,000
Between two and five years	<u>–</u>	<u>–</u>	<u>22,000</u>	<u>22,000</u>
	<u>22,011</u>	<u>79,245</u>	<u>235,577</u>	<u>263,652</u>

We had total outstanding bank borrowings of approximately HK\$22.0 million, HK\$79.2 million, HK\$235.6 million and HK\$263.7 million as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively. The increase in total bank borrowings after the relocation of our production facilities in 2007 was in line with our expansion of production.

### Accruals and other payables

	As at 31 December			As at
	2007	2008	2009	30 June
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Payable for purchase of property, plant and equipment	6,092	11,005	17,028	20,364
Salary and wages payable	5,778	8,173	12,817	13,355
Accrued operating expenses	4,190	4,254	7,883	21,508
Advance receipts from customers	136	646	306	728
Provision for value-added tax and other taxes in the PRC	6,515	8,447	6,608	6,945
Other accruals and other payables	<u>5,905</u>	<u>5,614</u>	<u>7,569</u>	<u>9,797</u>
	<u>28,616</u>	<u>38,139</u>	<u>52,211</u>	<u>72,697</u>

---

## FINANCIAL INFORMATION

---

Total accruals and other payables as at 30 June 2010 were approximately HK\$72.7 million, representing an increase of HK\$20.5 million over the amount as at 31 December 2009. Total accruals and other payables as at 31 December 2009 were approximately HK\$52.2 million, representing an increase of HK\$14.1 million, whereas as at 31 December 2008, total accruals and other payables were approximately HK\$38.1 million, representing an increase of approximately HK\$9.5 million from approximately HK\$28.6 million as at 31 December 2007. The increase in total accruals and other payables was mainly attributable to an increase in payables for the purchase of property, plant and equipment, increased salary and wages payable resulting from the increased headcount as we expanded our production lines, and increased accrued operating expenses. In particular, the increase of accrued operating expenses from approximately HK\$7.9 million as at 31 December 2009 to HK\$21.5 million as at 30 June 2010 was mainly attributable to the accrued professional fees incurred in preparation for the Listing.

### **Working Capital Positions**

We had net current liabilities of approximately HK\$90.0 million, HK\$93.2 million, HK\$69.6 million and HK\$66.6 million as at 31 December 2007, 2008, 2009 and 30 June 2010 respectively. Our net current liabilities position was principally attributed to the utilisation of short-term bank borrowings and term loans from licensed banks in Hong Kong to finance our business operations and capital expenditure as well as unsettled trade and bills payable as at each of the periods above during the Track Record Period. Our net current liabilities position was partly as a result of an early application of HK Interpretation 5 “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause” approved by the Hong Kong Institute of Certified Public Accountants in November 2010 whereby the Group’s term loans and hire purchase finance lease obligations, which were repayable after one year from the respective balance sheet date according to the repayment schedules set out in the relevant loan agreements, amounted to HK\$24.6 million, HK\$14.6 million, HK\$71.5 million and HK\$88.9 million as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively, have been classified as current liabilities as there is a repayment on demand clause in the loan agreement to give the lender an unconditional right to call the loan at any time. Should these borrowings be classified as non-current liabilities based on the repayment schedule (disregarding the repayable on demand clause in the loan agreement), the Group would have a net current liabilities position of HK\$65.4 million and HK\$78.6 million as at 31 December 2007 and 2008, and have a net current assets position of HK\$1.9 million and HK\$22.3 million as at 31 December 2009 and 30 June 2010, respectively. The increase in capital expenditure was primarily attributable to expenditure for property, plant and equipment during the Track Record Period of HK\$37.9 million, HK\$93.9 million, HK\$133.3 million, and HK\$68.7 million for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, in order to support the business growth of our Group. The considerable amount of unsettled trade and bills payables during the Track Record Period, which are included in current liabilities, was mainly attributable to a credit period of approximately 90 days granted to us by our suppliers and the relative trade and bills payables turnover days, which ranged from 77 days to 108 days, during the same period. Since it is our policy to adjust our cash receipts to cater for changes in our cash payments in order to manage our cash flow, the significant balance of trade and bills payables was in line with the trend of our trade receivables.

Following completion of the Global Offering, we expect our working capital position will improve, without relying on the short-term bank borrowings taking into account (i) our cash flow from operating activities had remained positive during the Track Record Period; (ii) capital required for our investing activities in accordance with the capital expenditure plan could be satisfied by the proceeds to be received by our Company from the Global Offering; and (iii) our historical working capital had proven to be sufficient for the operation of our Group during the Track Record Period.

---

## FINANCIAL INFORMATION

---

Going forward, however, we may continue utilising short-term banking facilities from licensed banks in Hong Kong and/or PRC to support part of our operational and capital expenditure where favourable or necessary.

### NET CURRENT LIABILITIES AS OF 31 OCTOBER 2010

As at 31 October 2010, being the latest practicable date for the purpose of this working capital statement, we had net current liabilities of approximately HK\$88.5 million, comprising current assets of approximately HK\$636.5 million and current liabilities of approximately HK\$725.0 million.

The following table sets out the composition of our unaudited current assets and liabilities as at 31 October 2010:

	<i>HK\$'000</i>
<b>Current assets</b>	
Inventories	225,133
Trade receivables	237,031
Prepayments, deposits and other receivables	46,750
Financial assets at fair value through profit or loss	1,265
Pledged bank deposits	92,465
Cash and cash equivalents	33,810
	<u>636,454</u>
<b>Current liabilities</b>	
Trade and bills payables	271,053
Accruals and other payables	44,301
Dividend payable	41,000
Bank borrowings	291,861
Finance lease obligations	42,342
Current income tax liabilities	22,570
Amounts due to directors	11,858
	<u>724,985</u>
<b>Net current liabilities</b>	<u><u>(88,531)</u></u>

We strive to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations, we also seek bank borrowings to fund our working capital requirements. We have maintained long-term relationships with various commercial banks in Hong Kong and China and we believe that our existing short-term bank loans will be accepted for renewal upon their maturity, if necessary. Since the beginning of the global financial recession, we have neither encountered major difficulties in securing and/or renewing bank borrowings, nor have we been charged an exceptionally high interest rate on our bank borrowings. We expect to finance our operations through a combination of operating cash inflows, proceeds from the Global Offering and/or bank borrowings.

Following completion of the Global Offering and taking into account the estimated net proceeds from the Global Offering, we expect we will no longer be in a net current liabilities position.

---

## FINANCIAL INFORMATION

---

### INDEBTEDNESS

#### Borrowings

As at 31 October 2010, being the latest practicable date for the purpose of this indebtedness statement, we have bank borrowings and finance lease obligations as follows:

	<i>HK\$'000</i>
<b>Non-current liabilities</b>	
Bank borrowings – bank loans	44,007
<b>Current liabilities</b>	
Bank borrowings	
– Bank loans	259,197
– Bank overdrafts	284
– Trust receipt loans	32,380
Finance lease obligations	<u>42,342</u>
	334,203
<b>Total borrowings</b>	<u><u>378,210</u></u>

Bank borrowings are secured by the Group's buildings and land use rights, pledged deposits and personal guarantees provided by our directors, Mr. Wong and Ms. Ching. The bank borrowings or finance lease obligations that are guaranteed by Mr. Wong and Ms. Ching will be settled prior to the Listing, or if they are to subsist after the Listing, the relevant banks have given in-principle consents to release the above personal guarantees, to be replaced by a corporate guarantee or replacement security given by any member of our Group upon the Listing.

Finance lease obligations are secured by machinery with carrying amounts of approximately HK\$67.4 million as at 31 October 2010.

#### Contingent liabilities

In April 2010, World Fair Hong Kong, one of our subsidiaries incorporated in Hong Kong, received a notice of additional assessment dated 30 March 2010 from the 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



---

## FINANCIAL INFORMATION

---

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 during as 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.

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

---

## FINANCIAL INFORMATION

---

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 and liabilities under acceptances (other than normal trade bills), acceptance credits, loans or other similar indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities outstanding as at 31 October 2010.

### CASH FLOWS

We have financed our operations and growth mainly through a combination of cash from operations and external borrowings. We have used our cash mainly to finance our operations and capital expenditures and to repay our borrowings. As at 30 June 2010, save as disclosed in the section headed “Use of Proceeds” in this prospectus, our Directors are not aware of any material change to the sources of our cash and our use of cash. Our Directors are of the view that as at the Latest Practicable Date, the recent global economic downturn had no material adverse effect on our liquidity position.

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

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

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

---

## FINANCIAL INFORMATION

---

### CAPITAL EXPENDITURES

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

	Year ended 31 December			Six months ended
	2007	2008	2009	30 June 2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Total capital expenditures</b>	<b><u>37,888</u></b>	<b><u>93,871</u></b>	<b><u>133,295</u></b>	<b><u>68,738</u></b>

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

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

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

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

### CAPITAL COMMITMENTS

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	<b><u>10,726</u></b>	<b><u>1,105</u></b>	<b><u>4,466</u></b>	<b><u>3,906</u></b>

---

## FINANCIAL INFORMATION

---

### OPERATING LEASE COMMITMENTS

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

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	3,164	4,299	5,287	6,669
Later than one year and not later than five years	–	6,727	7,970	11,353
Later than five years	–	2,229	1,126	563
	<u>3,164</u>	<u>13,255</u>	<u>14,383</u>	<u>18,585</u>

### DIVIDEND AND DIVIDEND POLICY

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

- financial results of our Company;
- shareholders' interests;
- general business conditions and strategies;
- our Company's capital requirements;
- the payment by our subsidiaries of cash dividends to our Company;
- possible effects on liquidity and financial position of our Company; and
- other factors our Board may deem relevant.

During the Track Record Period, subsidiaries of our Company declared dividends to their then equity holders of HK\$51.0 million, nil, HK\$51.0 million and HK\$15.4 million, respectively. In October 2010, we declared an interim dividend of approximately HK\$41.0 million in respect of the year ending 31 December 2010, which will be fully settled prior to the Listing.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and factors described

---

## FINANCIAL INFORMATION

---

above, we currently expect to distribute as dividends not more than 30% of our net profit after tax for the years commencing on or after the Listing. As we would not be listed for the whole of the year ending 31 December 2010, the dividend payment for the year ending 31 December 2010 will be pro-rated based on the period from the Listing Date to 31 December 2010.

### RECENT DEVELOPMENTS

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

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

### PROPERTY INTERESTS

As at 31 October 2010, our properties held under property and equipment were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The net revaluation surplus, representing the excess of market value of the said properties over their carrying values, has not been included in our consolidated financial information as at 30 June 2010 as our Group's property interests are stated at cost less accumulated depreciation and accumulated impairment losses.

The table below set for the reconciliation of aggregate amounts of property interests from our consolidated financial information as of 30 June 2010 and 31 October 2010 to the valuation amount of our Company's property interests as of 31 October 2010:

	HK\$'000
Net book value of our property interests as of 30 June 2010	83,320
Movements for the four months ended 31 October 2010	
– Additions	1,271
– Depreciation	(761)
Net book value of our property interests as of 31 October 2010	83,830
Valuation surplus as of 31 October 2010	18,910
Valuation as of 31 October 2010 per Appendix IV to this prospectus <sup>(Note)</sup>	<u>102,740</u>

Notes:

- (i) The amount has been translated from RMB into HK dollars at a rate of RMB0.87 to HK\$1.00.
- (ii) The amount includes the capital value of the Group's property interests as at 31 October 2010 of RMB66,096,000 (equivalent of HK\$75,972,000), and the replacement cost of two buildings of RMB23,288,000 (equivalent of HK\$26,768,000) where proper title certificate or construction work commencement permits have not yet obtained.

---

## **FINANCIAL INFORMATION**

---

### **RELATED PARTY TRANSACTIONS**

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

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

### **DISTRIBUTABLE RESERVES**

As at 30 June 2010, our Company had a share premium of HK\$34,750,000, which is available for distribution to our shareholders. Our Group's retained earnings as at 30 June 2010 amounted to HK\$320,020,000.

### **WORKING CAPITAL**

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

### **OFF BALANCE SHEET TRANSACTIONS**

Except for the commitments and contingent liabilities set forth above, we have not entered into any material off-balance sheet transactions or arrangements as at 30 June 2010.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

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

### **NO MATERIAL ADVERSE CHANGE**

The Directors have confirmed that there has been no material adverse change in our financial or trading position since 30 June 2010 (being the date of our latest audited consolidated financial results as set out in Appendix I to this prospectus).

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as at 30 June 2010 as if the Global Offering had been taken place on 30 June 2010.

## FINANCIAL INFORMATION

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at 30 June 2010 or any future date following the Global Offering. It is prepared based on our consolidated net assets as at 30 June 2010 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report as set out in Appendix I to this prospectus.

	<b>Audited consolidated net tangible assets of the Group attributable to equity holders of our Company as at 30 June 2010<sup>(1)</sup> HK\$'000</b>	<b>Estimated net proceeds from the Global Offering<sup>(2)</sup> HK\$'000</b>	<b>Unaudited adjusted net tangible assets HK\$'000</b>	<b>Pro forma adjusted net tangible assets per Share<sup>(3)(4)</sup> HK\$</b>
Based on an Offer Price of HK\$0.85 per Share	287,755	524,059	811,814	0.28
Based on an Offer Price of HK\$1.05 per Share	287,755	662,524	950,279	0.33

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to equity holders of our Company as at 30 June 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of our Company as at 30 June 2010 of HK\$309,201,000 with an adjustment for the intangible assets of HK\$21,446,000 as at 30 June 2010.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$0.85 and HK\$1.05 per Share, respectively, after deduction of estimated related fees and expenses, and do not take into account of any Shares that may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.
- (3) The unaudited pro forma adjusted net tangible assets per Share is determined after the adjustments as described in Note (2) above and on the basis that 2,870,000,000 Shares were in issue assuming that the Global Offering has been completed on 30 June 2010 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2010. In particular, the unaudited pro forma net adjusted tangible assets of the Group does not take into account the dividend of approximately HK\$41.0 million declared by the Board in October 2010. The unaudited pro forma net tangible assets per Share would have been HK\$0.27 and HK\$0.32 per share based on the Offer Price of HK\$0.85 and HK\$1.05 respectively, after taking into account the declaration of the dividend in the sum of approximately HK\$41.0 million.
- (5) As of 31 October 2010, the Group's properties held under property and equipment were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The net revaluation surplus of HK\$18,910,000, representing the excess of values of the said properties over their carrying values, has not been included in the Group's consolidated financial information as at 30 June 2010. The above adjustments do not take into account of such revaluation surplus. Had the properties been stated at such valuation, an additional depreciation and amortisation of HK\$573,000 per annum in respect of the revaluation surplus, before income taxes, would be charged to the consolidated income statement.



---

## FINANCIAL INFORMATION

---

### PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2010

Forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2010 <sup>(1) &amp; (2)</sup>	Not less than HK\$205.0 million
Unaudited pro forma forecast earnings per Share for the year ending 31 December 2010 <sup>(3)</sup>	Not less than HK\$0.07

*Notes:*

- (1) The bases and assumptions on which the above consolidated profit forecast for the year ending 31 December 2010 has been prepared are summarised in Appendix III to this prospectus.
- (2) The Directors have prepared the forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2010 based on audited consolidated results of our Group for the six months ended 30 June 2010, unaudited management accounts of our Group for the three months ended 30 September 2010 and a forecast of the consolidated results of the Group for the remaining three months ending 31 December 2010. The forecast has been prepared based on the accounting policies consistent in all material respects with those presently adopted by our Group as set out in Note 4 of Section I of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.
- (3) The calculation of unaudited pro forma forecast earnings per Share for the year ending 31 December 2010 is based on the forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2010 and on the basis that 2,870,000,000 Shares were in issue during the entire period and assuming that the Global Offering had been completed on 1 January 2010. The calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

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

#### Market risks

##### *Foreign exchange risk*

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

As at 31 December 2007, 2008 and 2009 and 30 June 2010, our borrowings were denominated in Hong Kong dollar, US dollar and RMB. Since the Hong Kong dollar is pegged to the US dollar,

---

## FINANCIAL INFORMATION

---

we believe that the exposure of transactions denominated in Hong Kong dollars which are entered into by us to be insignificant.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, if RMB had strengthened/weakened at a rate of 5% against the US dollar with all other variables held constant, our post-tax profit for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010 would have been lower/higher by HK\$236,000, HK\$218,000, HK\$1,452,000 and HK\$557,000, respectively, mainly as a result of foreign exchange losses/gains on revaluation of RMB denominated receivables and payables.

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

### *Interest rate risk*

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

As at 31 December 2007, 2008 and 2009 and 30 June 2010, if interest rates on cash held at banks and pledged bank deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010 would have been approximately HK\$158,000, HK\$487,000, HK\$908,000 and HK\$391,000 higher/lower, respectively, mainly as a result of higher/lower interest income on cash held at banks and pledged bank deposits.

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

As at 31 December 2007, 2008 and 2009 and 30 June 2010, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010 would have been approximately HK\$630,000, HK\$976,000, HK\$2,426,000 and HK\$1,328,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

We are not exposed to any fair value interest-rate risk as we do not hold any fixed rates borrowings as at 31 December 2007, 2008 and 2009 and 30 June 2010.

### **Credit risks**

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

---

## FINANCIAL INFORMATION

---

As at 31 December 2007, 2008, and 2009 and 30 June 2010, the customer with highest amount of trade receivables accounted for approximately 82%, 99%, 54%, and 39% of our trade receivables, respectively. We have policies in place to ensure that sales of products are made to customers with an appropriate credit history. We normally conduct credit checks on new customers and may require them, and other customers with credit histories that we are not satisfied with, to provide us with a letter of credit when placing orders. In order to minimise our credit risk, our management has implemented internal control procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

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

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

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

### **Liquidity risks**

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

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