OVERVIEW

Business model

The Group is an established EMS provider headquartered in Hong Kong, which offers one-stop solutions to a number of international brand owners of consumer electronic products. As the Group offers one-stop solutions to its customers including research and development, sourcing and procurement, production, sales and logistics and after-sales services, which are services provided by either ODM or OEM, the Directors believe that the term “EMS”, which is generally used in consumer electronics industry, is best suited to describe the Group’s business. The Group distinguishes itself from traditional EMS providers by the change of its business model from a sole EMS provider to an operator of both EMS and branded businesses through tapping into the branded products market in 2009. Please refer to the section headed “Risk Factors – Risks relating to the business of the Group” in this prospectus for the risks associated with the above-mentioned change in the Group’s business model. The Group currently has a diversified customer base covering Japan, the Asia-Pacific region, the Americas and Europe, and with international brand owners of consumer electronic products as its EMS customers. During the Track Record Period, a considerable proportion of the Group’s revenue under the EMS segment was generated from its ODM customers to whom the Group provided one-stop solutions including research and development, sourcing and procurement, production, sales and logistics and after-sales services. The Group’s branded businesses include distribution of SMB phone systems under the “RCA” brand in North America and assembly and/or distribution of portable storage devices and/or multimedia products under the “TrekStor” brand in Europe. According to NPD, for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, SMB phone systems under the “RCA” brand ranked third, second, third and second, respectively, in terms of retail revenue of SMB phone systems in the US, and had a market share of approximately 19.3%, 27.8%, 26.5% and 28.9%, respectively. The Directors believe that the “TrekStor” brand has enjoyed a good reputation in Germany in relation to portable storage devices and multimedia products before early 2009.

The Group is headquartered in Hong Kong. Whilst a majority of the Group’s management team, administrative team and research team are in Hong Kong, most of its production and development activities are carried out in the PRC. While the Group’s portable storage devices under the “TrekStor” brand are assembled in Germany, most of its products are manufactured in its production facilities in Guangzhou and Huizhou. The Group has leased offices in Shenzhen where some of its administrative and development activities are conducted. As at the Latest Practicable Date, the Group had (i) 17 fully automated SMT production lines; (ii) 22 production lines and 20 bonding machines for COB assembly; and (iii) approximately 2,400 full-time employees in its production facilities. The Group’s production lines can, with minor adjustments, be used for the production of consumer electronic products for different EMS customers.

As at the Latest Practicable Date, the Group had approximately 100 engineers who focus on technology research, product realisation and commercialisation through turning conceptual designs into deliverable products, design improvements and optimisation of production processes. In recent years, the Group has expanded its research and development capabilities and intends to devote additional resources to technological advancement. During the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group’s research and development expenses amounted to approximately HK$11.0 million, HK$17.1 million, HK$18.8 million and HK$11.9 million, respectively.

The Group's revenue increased from approximately HK$564.1 million for the year ended 31 December 2007 to approximately HK$821.9 million for the year ended 31 December 2009, representing a CAGR of approximately 20.7%. The Group's net profit attributable to the Shareholders increased from approximately HK$14.4 million for the year ended 31 December 2007 to approximately HK$76.2 million for the year ended 31 December 2009, representing a CAGR of approximately 130.0%.

EMS business

The Group's EMS business is principally conducted on a turnkey basis. Its one-stop solutions under the EMS business include research and development, sourcing and procurement, production, sales and logistics and after-sales services. The Directors consider that the Group's achievements in its EMS business are mainly attributable to the Group's relationships with certain international players in the global consumer electronic products industry, its expertise in providing flexible manufacturing solutions, as well as its experienced and dedicated management team and engineers.

The Group has been committed to bringing high quality consumer electronic products to its customers, and has adopted stringent quality assurance procedures at different stages of its business operation spanning from the pre-production process to the inspection of finished goods. The Group's production facilities obtained various quality standard certifications, including ISO 9001 certification, ISO 14001 certification and ISO 13485 certification.

Branded businesses

Leveraging on its EMS capabilities, the Group has been developing its branded businesses since 2009. For the year ended 31 December 2009 and the eight months ended 31 August 2010, the Group had 61 and 74 customers for its branded businesses, respectively, who were mainly retailers and distributors. The revenue generated from the Group's branded businesses accounted for approximately 17.1% and 32.0% of the Group's total revenue for the year ended 31 December 2009 and the eight months ended 31 August 2010, respectively. Please refer to the paragraph headed "Branded businesses" under the sub-section headed "Business model" in this section for further details of the Group's branded businesses. By developing the branded businesses, the Directors believe that the Group is able to (i) expand and enlarge its customer base across a wider geographical region covering the Americas and Europe; (ii) distinguish itself from traditional EMS providers by becoming a distributor of international brands of consumer electronic products; and (iii) operate a more vertically-integrated manufacturing business model supported by an international distribution network.

The Group's branded businesses, which commenced in March 2009, are new and have a short track record. As such, it is difficult to identify the difficulties that the Group may encounter in different stages of developing and implementing its branded business model. In order to minimise the risks involved in the business expansion into the branded products market, the Directors proactively assess and identify the risks involved in the branded businesses, including the exposure to exchange rate fluctuations and product liability risks. Since the commencement of its branded businesses, the Group has adopted currency hedging and strengthened its quality assurance, including quality audit before exit of the suppliers' factories in the PRC, participation in product development cycle and performing reliability confirmation testing before the commencement of production. In addition, the Directors believe that, with the existing expertise and experience of the Group's senior management team in EMS and/or branded businesses, the Group will be able to achieve business growth in the branded products market. Furthermore, the Group has efficient inventory management to maintain the inventory for branded businesses at a minimum level by adopting the inventory control measures for its EMS business with slight modifications.

Licensed brand products distribution business in North America

The Group's licensed brand business in North America is primarily related to the distribution of pre-approved models of SMB phone systems under the "RCA" brand through licensing arrangement under the RCA Licence Agreement, which is due to expire on 31 December 2013. Please refer to the paragraph headed "Branded businesses – Licensed brand products distribution business in North America – Licensing arrangement" under the sub-section headed "Business model" in this section for details of the licensing arrangements. According to NPD, for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the retail revenue of SMB phone systems in the US amounted to approximately US$129.9 million, US$101.3 million, US$82.4 million and US$51.1 million, respectively. For the year ended 31 December 2009 and the eight months ended 31 August 2010, the revenue generated from the distribution business of SMB phone systems under the "RCA" brand accounted for approximately 14.3% and 15.1% of the Group's total revenue, respectively. Although the Group has started preliminary discussion to renew the RCA Licence Agreement, there is no assurance that the Group could secure the renewal on favourable terms or at all. Please refer to the paragraph headed "The Group's branded businesses have a short track record and the Group may not be able to realise the benefits envisioned for its expansion into the branded businesses – Distribution of SMB phone systems under the 'RCA' brand" under the section headed "Risk Factors – Risks relating to the business of the Group" in this prospectus for further details of the relevant risks.

Own brand products distribution business in Europe

In addition, the Group has assembled and/or distributed portable storage devices and/or multimedia products under the "TrekStor" brand, which are marketed and distributed to electronics superstores and other retailers mainly in Germany and various other countries in Europe. The Group's own brand business under the "TrekStor" brand recorded a net loss of approximately HK$22.3 million during the eight months ended 31 August 2010. The loss was mainly attributable to (i) sales picked up slowly when the Group was re-establishing the business relationship with the customers of TrekStor GmbH & Co. KG (in liquidation) while the Group was obliged to continue to pay for overhead costs such as staff costs and rent; and (ii) the Group was taking steps to resume new product development to introduce new products to the market. Please refer to the section headed "Financial Information – Review of historical operating results" in this prospectus for further details.

Revenue

The table below sets forth the Group's revenue generated by the Group's three business segments, including a breakdown of the Group' s EMS segment into two principal product lines, namely, telecommunications products and non-telecommunications products, and into principal products, in absolute amounts and as a percentage of the Group's total revenue from external customers, for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2007		2008		2009		2009		2010	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
EMS										
Telecommunications products										
– Corded and cordless residential telephones and SMB phone systems	328,342	58.2	356,504	42.0	171,148	20.8	101,897	20.5	99,651	14.5
Non-telecommunications products										
– Appliances and appliances control products	102,495	18.2	322,408	38.0	374,914	45.6	249,386	50.2	302,147	43.8
– Multimedia products	90,440	16.0	111,931	13.2	57,109	7.0	32,231	6.5	19,599	2.8
– Computer accessories	–	–	–	–	13,550	1.6	337	0.1	13,719	2.0
– Beauty care equipment	11,424	2.0	8,842	1.0	1,557	0.2	1,379	0.3	2,937	0.5
– Others	31,351	5.6	48,807	5.8	63,598	7.7	45,019	9.0	30,620	4.4
EMS segment subtotal	564,052	100.0	848,492	100.0	681,876	82.9	430,249	86.6	468,673	68.0
Branded businesses										
Telecommunications products										
– SMB phone systems (Licensed brand business)	–	–	–	–	117,367	14.3	66,545	13.4	104,562	15.1
Non-telecommunications products										
– Portable storage devices and multimedia products (Own brand business)	–	–	–	–	22,655	2.8	–	–	116,306	16.9
Branded businesses segment subtotal	–	–	–	–	140,022	17.1	66,545	13.4	220,868	32.0
Total	**564,052**	**100.0**	**848,492**	**100.0**	**821,898**	**100.0**	**496,794**	**100.0**	**689,541**	**100.0**

The table below sets forth a breakdown of the Group's gross profit and gross profit margin ("**GPM**") for its business segments, principal product lines and principal products, for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2007		2008		2009		2009		2010	
		GPM		GPM		GPM		GPM		GPM
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
EMS										
Telecommunications products										
– Corded and cordless residential telephones and SMB phone systems	19,075	5.8	31,078	8.7	13,655	8.0	8,186	8.0	9,711	9.7
Non-telecommunications products										
– Appliances and appliances control products	36,839	35.9	86,571	26.9	115,216	30.7	78,606	31.5	80,023	26.5
– Multimedia products	7,407	8.2	15,765	14.1	10,742	18.8	4,199	13.0	5,460	27.9
– Computer accessories	–	–	–	–	528	3.9	86	25.5	1,446	10.5
– Beauty care equipment	2,054	18.0	1,045	11.8	464	29.8	361	26.2	446	15.2
– Others	880	2.8	1,871	3.8	7,674	12.1	4,502	10.0	6,753	22.1
EMS segment gross profit and GPM	66,255	11.7	136,330	16.1	148,279	21.7	95,940	22.3	103,839	22.1
Branded businesses										
Telecommunications products										
– SMB phone systems (Licensed brand business)	–	–	–	–	35,281	30.1	20,179	30.3	33,732	32.3
Non-telecommunications products										
– Portable storage devices and multimedia products (Own brand business)	–	–	–	–	4,172	18.4	–	–	14,894	12.8
Branded businesses segment gross profit and GPM	–	–	–	–	39,453	28.2	20,179	30.3	48,626	22.0
Total gross profit and overall GPM	**66,255**	**11.7**	**136,330**	**16.1**	**187,732**	**22.8**	**116,119**	**23.4**	**152,465**	**22.1**

For the year ended 31 December 2009 and the eight months ended 31 August 2010, revenue generated by the Group's branded businesses amounted to approximately HK$140.0 million and HK$220.9 million, respectively, representing approximately 17.1% and 32.0% of its aggregate revenue for the corresponding periods, respectively. The Group intends to further expand its branded businesses in the future.

COMPETITIVE STRENGTHS

The Directors believe that the Group's success and future success are based on the following competitive strengths:

The Group distinguishes itself from traditional EMS providers by its branded businesses

The Directors believe that the Group distinguishes itself from traditional EMS providers by engaging in the branded businesses. The Group has operated as a manufacturer and distributor of SMB phone systems under the "RCA" brand in North America and an assembler and/or distributor of portable storage devices and/or multimedia products under the "TrekStor" brand in Europe since March 2009 and November 2009, respectively. Further details of the Group's principal business activities are set out in the sub-section headed "Business model" in this section. The Directors consider that the manufacturing and distribution business of SMB phone systems under the "RCA" brand in North America and the assembly and/or distribution of portable storage devices and/or multimedia products under the "TrekStor" brand present a good growth potential for the Group. According to NPD, SMB phone systems under the "RCA" brand have been one of the three largest players in the US market. The Directors also believe that the "TrekStor" brand has enjoyed a good reputation in Germany in relation to its portable storage devices and multimedia products before early 2009. Thus, the Directors believe that the branded businesses enable the Group to charge premium prices, enjoy higher profit margins and position its products towards the higher end of the market.

The Directors believe that the Group would have a better understanding of the market and industry opportunities for its branded businesses in the course of the establishment and operation of a distribution network in North America and Europe. Leveraging on the existing branded products distribution network in North America and Europe, the Directors believe that the Group will be able to expand its market reach and increase its market penetration and market share, and further distribute new products to these markets in the future.

Vertically-integrated business model facilitates an efficient product mix, and improves the speed to market and the product quality

With the establishment and operation of its branded businesses, the Group has a vertically-integrated business model which allows it to manage key supply chain functions from research and development to after-sales services. This provides the Group with a significant operational flexibility, direct access to retailers and greater control over access to raw materials and components as well as to control production cost, quality and delivery time. Benefited from the product knowledge and manufacturing experience gained during its long-standing EMS business operations, the Group constantly initiates new development ideas to develop new products for its customers. The Directors believe that the Group's ability to identify such technological opportunities for its customers enables it to solicit and capitalise on new business opportunities.

The Group maintains a close dialogue among its sales and marketing team, research and development team and production team, which the Directors believe allows the Group to promptly and effectively respond to changes in consumer demands and preferences. The Group is able to adjust its products portfolio and its product development capability allows it to develop new products to suit its customers' needs and demands. The close inter-departmental cooperation allows the Group to serve its customers promptly and directly, and create interest in products developed by the Group which are new to the market.

The Group uses automated and semi-automated production machineries and testing equipment to manufacture most of the key component modules required for its products. The Group constantly invests in new machines to ensure it has up-to-date SMT production lines. In addition, the production lines are designed to allow a high degree of flexibility and, in certain cases, can be adjusted to accommodate the production of other products in a relatively short time frame.

Established and long-standing relationships with customers

The Group has successfully maintained business relationships with a number of customers for more than five years, including the Group's major customers. The Directors believe that the Group's understanding of its customers' needs and its ability to deliver quality and one-stop solutions have been of value to the customers. Most of the major customers require the Group to undergo their internal audits on quality assurance procedures, raw materials management, production management and delivery management, which usually take at least six months to complete.

The Directors believe that the quality of the Group's services and products is the key to maintaining customer loyalty. The Group's major customers are invited to station their staff at the Group's production facilities for a period of time to understand its production process and quality assurance procedures. The Directors further believe that the Group's established and long-term relationships with its major customers are attributable to its consistent track record of quality products, production know-how, industry experience, dedicated management teams and after-sales services.

Flexible, efficient and one-stop solutions

The Group offers one-stop solutions from research and development to after-sales services to its EMS customers. During the Track Record Period, a considerable proportion of the Group's revenue under the EMS segment was generated from its ODM customers to whom the Group provided one-stop solutions including research and development, sourcing and procurement, production, sales and logistics and after-sales services. Furthermore, the Group aims to maximise its flexibility and efficiency throughout the production process and to customise its products to fulfil the specifications of different customers. The Group is able to meet both "high volume, low mix" and "low volume, high mix" requirements from its customers due to the utilisation of production set up for different applications. For "high volume, low mix" production, automated or semi-automated production machineries are adjusted to form production lines to tailor for efficient and large scale production of specific products. For "low volume, high mix" production, cellular manufacturing utilises cell line production to arrange production floor labour into multi-skilled work cells to achieve maximum efficiency, productivity and flexibility of short production runs.

The Group's engineers deploy their expertise in order to improve the Group's efficiency in production and maximise utilisation of its production capacity. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the total amount of purchases of machinery were approximately HK$11.0 million, HK$19.0 million, HK$14.2 million and HK$5.4 million, respectively, representing approximately 2.0%, 2.2%, 1.7% and 0.8% of the total revenue, respectively.

The Group maintains a relatively low but sufficient level of inventory at its production facilities and warehouses. To control work-in-progress, the Group employs the Kanban system which uses demand signals to ensure that the necessary products (or parts) are produced (or acquired) in the necessary quantities within the required time frame. During the Track Record Period, whilst inventory levels for the Group's EMS business were kept at not more than two months on average, the Group usually kept less than three months' inventory including goods in transit to cater to the changing demand for the products for its branded businesses. Materials write-off percentage had been maintained at less than 1% of its total inventory in general. Furthermore, the Group has implemented an enterprise resource planning system to manage all production information, which allows the management team to be kept updated with the latest information for better materials and work-in-progress management control. Through the above efforts, the Group is capable of producing a wide range of quality products at reasonable cost.

Strong focus on research and development

As at the Latest Practicable Date, the Group had over 100 engineers, including electronic, mechanical, software and testing engineers who are capable of designing and developing (i) electronic circuits; (ii) software embedded in micro-controllers and testers; (iii) ASIC circuits; and (iv) cabinet parts and all related mechanical assembly parts. The Group's engineers have a strong focus on product realisation, commercialisation and improvements. They turn conceptual designs into deliverable and commercialised products, improve product designs and optimise the production process. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the research and development expenditure amounted to approximately HK$11.0 million, HK$17.1 million, HK$18.8 million and HK$11.9 million, respectively, representing approximately 1.9%, 2.0%, 2.3% and 1.7% of the total revenue, respectively.

The Group has invested, and will continue to invest, resources in research and development in order to keep its products up-to-date and enable its products to enter into potential and/or new market segments. By continuing such investments, the Directors consider that the Group can provide more complex products of higher quality in a cost-effective manner, increase its business with existing customers and attract new customers which will increase the Group's market share in the EMS industry.

Strong and stable management team with extensive industry experience

The Group's management team brings years of experience and leadership to the Group in the EMS and/or branded business industry. Most of the executive Directors have been with the Group since the commencement of the Group's business and most of them have been shareholders of the Group's subsidiaries since 1992. Each of the following executive Directors, Mr. Cheng, Mr. KY Ng, Ms. Fok and Mr. KB Lee, as well as most of the members of the senior management possess more than 20 years of experience in the EMS and/or branded business industry. With their expertise and experience, the Directors believe that the Group's management team possesses the leadership and vision required to anticipate changes in the EMS and/or branded business industry. The Directors further believe that, with the knowledge and experience in EMS and/or branded business industry, the Group's management team will be able to lead the Group to expand its branded businesses successfully.

BUSINESS STRATEGIES

The Group aims to develop its branded businesses by expanding the portfolio of its brands and products. In addition, the Group aims to become one of the leading EMS providers in Hong Kong. In particular, the Group aims to achieve sustainable growth in its revenue and net profit. To achieve the above-mentioned goals, the Group will implement the following strategies:

Acquire and/or license additional brands to expand its branded businesses

Based on the Group's experience in its branded businesses, the Directors consider that the Group is in a position to capitalise on potential brand acquisition and licensing opportunities. The Group will assess the opportunities to acquire or license additional brands from time to time in order to expand the portfolio of its brands and products for its branded businesses. The Group is selective in introducing additional brands into its portfolio. When considering whether a prospective brand should be introduced into its portfolio, the Group would take into account whether the prospective brand: (i) is a reputable brand in the global or regional market; (ii) allows the Group to have a high degree of supply chain management; and (iii) may provide stable income and may present growth potentials to the Group.

Focus on potential market segments to target higher profit margin opportunities

The Group intends to target at niche market segments and develop new and higher profit margin products. The Group has identified the following market segments of consumer electronic products which the Directors believe to have potential growth opportunities: (i) medical electronic products; and (ii) car electronic products. The Group will deploy advanced production technologies to further capture its existing and potential market segments and expand its products portfolio.

For the medical electronics market, the Group has already obtained ISO13485 and FDA registration to facilitate its manufacturing of qualified medical electronic products. Moreover, the Group has secured an EMS customer to supply teeth whitening products and the first shipment was made in December 2010. For the car electronics market, the Group has been producing car electronic products such as GPS and motor controls, in small quantity, for car usage for several customers. The Group intends to expand related sales activities with existing as well as other potential customers. The Directors are of the view that while this will not involve a change in the Group's business focus, it also enables the Group to further expand and broaden its product range in the EMS segment. For the risks associated with such expansion of market segment, please refer to the section headed "Risk Factors – Risks relating to the business of the Group" in this prospectus.

Strengthen the Group's sales and marketing effort and enhance its relationship with existing customers

The Group currently serves international brand owners of consumer electronic products. The Group will continue to identify other international brand owners so as to further broaden its customer base in terms of product types and segments served. The Group will establish new overseas sales and marketing teams, such as in Japan. The Group seeks to strengthen and capitalise on its relationships with its existing major EMS customers, to expand and widen its customer base by customer type, end-market application and geographical regions. The Group seeks to establish and maintain long-term relationships with its EMS customers by participating in their product development and new product introduction cycles and thereafter providing them with one-stop solutions from research and development to after-sales services. The Group will also participate in more trade exhibitions and place more advertisements in trading magazines in relation to customer products to further develop its relationships with potential customers.

Improve production technologies and devote more resources to research and development

The Group seeks to conduct new product development and introduces products that address prevailing and expected changes in customer demand. The Directors believe that continued investment in the latest production technologies and focusing on research and development are essential to the Group's continued success and business development. The Group's research and development department will continue to conduct researches on the latest technologies to deliver innovative products and solutions to its customers. In addition, in order to further augment its research and development capabilities, the Group will also continue to cooperate with its customers and/or universities to jointly develop innovative products and solutions. The Group will also seek to improve its product design and engineering, and to develop and implement more cost-effective production procedures such as adopting more advanced processing technologies, further automating its production process and reducing its production costs.

Expand and upgrade the Group's production facilities

The Group will continue to invest in production lines and equipment. Given that the production capacity of the Group's automated and semi-automated production facilities are saturated during the peak seasons, the Group has to further expand its production capacity by adding new machineries and production lines including SMT machines, plastic injection machines and assembly lines. The Group will also increase its production capabilities for assembly.

Strengthen the Group's existing branded businesses and develop its own brands

Brand awareness and recognition are important to the Group's success. The Directors believe that the Group can continue to develop the existing "RCA" and "TrekStor" brands and further increase recognition of these brands in North America and Europe, respectively, through advertising media such as newspapers, magazines and the Internet. The Directors believe that as the Group continues to develop its existing "RCA" and "TrekStor" brands through carefully planned marketing campaigns, the Group's revenue and net profit will be increased. The Group will set up sales offices or enter into distribution arrangements as and when opportunities arise. Leveraging on the existing "RCA" and "TrekStor" brands, the Group intends to further broaden its product portfolio and, in the long run, introduce other branded products. In addition, the Group aims to continue to maintain flexibility in its product development, including moving into other product categories where appropriate.

BUSINESS MODEL

The Group's principal business activities are classified into two categories: (i) EMS business; and (ii) branded businesses. The Directors consider that the Group's business model is characterised by the following:

(i) under a distribution network across North America and Europe, the Group distributes products under the "RCA" and "TrekStor" brands, which the Directors believe to have established market presence, customer brand loyalty and growth potential in their respective geographical regions; and

(ii) the Group maintains its market position by serving its EMS and branded businesses customers with a broad range of services offering higher profit margin niche products, new ideas and innovating solutions, and the maintenance of good relationship with customers.

The table below sets forth the revenue generated by the Group's EMS business and branded businesses, in absolute amounts and as a percentage of the Group's total revenue from external customers, for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2007		2008		2009		2009		2010	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
EMS business	564,052	100.0	848,492	100.0	681,876	82.9	430,249	86.6	468,673	68.0
Branded businesses	–	–	–	–	140,022	17.1	66,545	13.4	220,868	32.0
Total	564,052	100.0	848,492	100.0	821,898	100.0	496,794	100.0	689,541	100.0

EMS business

The Group offers one-stop solutions to its EMS customers including research and development, sourcing and procurement, production, sales and logistics and after-sales services. During the Track Record Period, a considerable proportion of the Group's revenue under the EMS segment was generated from its ODM customers to whom the Group provided one-stop solutions including research and development, sourcing and procurement, production, sales and logistics and after-sales services. Set out below is a chart which depicts the EMS business model of the Group:

- In-house research and development teams with extensive exposure and experience in software, hardware and mechanical design and engineering which offer broad range of solutions such as circuit design and ASIC design

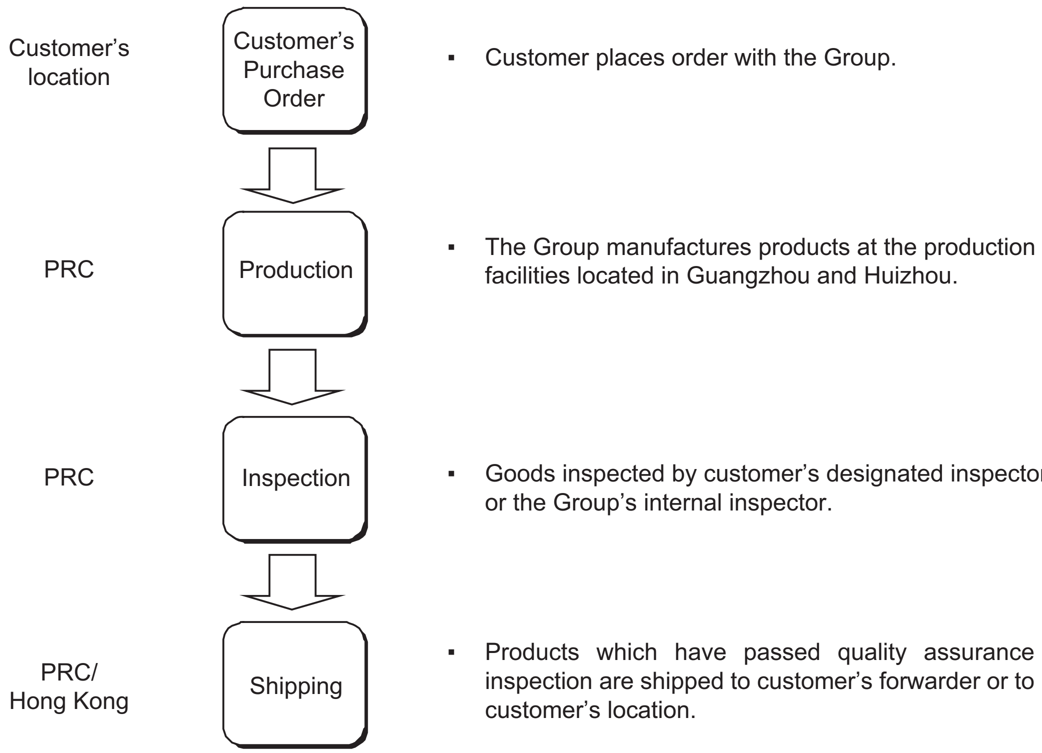
- Experienced management dedicated to efficient planning of manufacturing resources and global procurement of raw materials and components from geographically diverse suppliers to ensure cost competitiveness, stability and timeliness of supplies

- Wide range of assembly and manufacturing capabilities and customised design of production facilities and careful planning on equipment investment enabled high flexibility in ramping up operations to high volume production
- Stringent quality assurance procedures to guarantee high quality products

- Extensive selection of logistics planning and execution services including import/export management and global direct drop shipment and distribution services tailored to meet different needs from diverse customers

- Customer-oriented with a strong dedication to strive for full protection of customers' proprietary rights whilst continuing to uphold its commitment to providing quality products and timely delivery

The key steps involved in the EMS production flow are as follows:



Branded businesses

The Group's branded businesses mainly comprise distribution of SMB phone systems under the "RCA" brand in North America and assembly and/or distribution of portable storage devices and/or multimedia products under the "TrekStor" brand mainly in Germany and various other countries in Europe. The Group's branded products were marketed and distributed to retailers such as office and equipment supplies superstores and electronics superstores and various authorised distributors in North America and Europe (as the case may be). For the year ended 31 December 2009 and the eight months ended 31 August 2010, the Group had 61 and 74 customers for its branded businesses, respectively, who are mainly retailers and distributors. The revenue generated from the Group's branded businesses accounted for approximately 17.1% and 32.0% of the Group's total revenue for the year ended 31 December 2009 and the eight months ended 31 August 2010, respectively.

Licensed brand products distribution business in North America

The Group has been producing SMB phone systems since 2005, in which it started manufacturing SMB phone systems as an EMS provider for its customers, such as Thomson Inc. In February 2009, in addition to manufacturing SMB phone systems under the "RCA" brand, the Group commenced the distribution of SMB phone systems under the "RCA" brand in North America through a licensing arrangement. The SMB phone systems under the "RCA" brand includes two-line and four-line SMB phone systems.

With a view to entering into the licensed brand business in North America, the Group entered into the RCA Agreements to (i) purchase certain assets and equipment; and (ii) obtain an exclusive licence to distribute the SMB phone systems under the "RCA" brand in North America.

Asset purchase

Pursuant to the RCA Asset Purchase Agreement, the Group agreed to purchase from Thomson Inc., an Independent Third Party, certain assets and equipment including all raw materials, work-in-progress, finished goods, inventory and the design and tooling of the specified models in connection with the SMB phone systems under the "RCA" brand.

Licensing arrangement

Pursuant to the RCA Licence Agreement, RCA Trademark Management SAS ("**RCA Management**"), a fellow subsidiary of Thomson Inc. and an Independent Third Party, granted to the Group an exclusive licence to distribute SMB phone systems bearing the "RCA" trademark in North America from 1 March 2009 to 31 December 2013.

Set out below are summaries of the major terms of the RCA Licence Agreement:

- ***licence*** – RCA Management granted an exclusive licence to the Group to:

    (i) use the "RCA" trademark in connection with the advertising, promotion, sale and distribution of pre-approved models of SMB phone systems in North America;

    (ii) affix and/or display the "RCA" trademark on or to packaging, instruction books, advertising and promotional materials in North America; and

    (iii) manufacture or have the pre-approved models of SMB phone systems bearing the "RCA" trademark manufactured within or outside North America;

- ***guaranteed payments*** – the Group agreed to guarantee a minimum royalty payment calculated based on the estimated sales of SMB phone systems by mutual agreement for each of the calendar years during the term of the RCA Licence Agreement (the "**Estimated Sales**"). In the event that the Group could not reach the Estimated Sales for a particular calendar year, the Group shall still be liable to pay the minimum royalty payment as agreed for that particular year;

- ***consideration*** – the Group shall pay a royalty fee based on a percentage of the net sales or the Estimated Sales of SMB phone systems made by the Group (whichever is higher) *(Note)*;

Note: The royalty fee paid by the Group for the year ended 31 December 2009 and the eight months ended 31 August 2010 accounted for less than 1.0% of the Group's total revenue for the corresponding periods. The Group treated the consideration to be paid under the RCA Licence Agreement as contingent consideration, which is an estimated discounted cash value of future payment of royalty fee calculated by a percentage on net sales budgeted by the Group or the Estimated Sales of SMB phone systems.

- ***reporting obligations*** – the Group is obliged to submit a complete and accurate report in the agreed form of the net sales of each pre-approved model of the SMB phone systems;

- ***design alteration or new design*** – the Group may alter the designs or introduce new designs of the SMB phone systems under the "RCA" trademark with prior approval (whether express or implied) by RCA Management *(Note)*;

- ***quality control*** – the Group is obliged to submit sample products to RCA Management for prior quality examination in the form prior to commercial production and distribution of the relevant products;

- ***ownership of altered designs and marketing materials*** – authorship of all the created works bearing the "RCA" trademark shall be deemed property of RCA Management; and

- ***termination rights*** – if a breach of the RCA Licence Agreement is not cured by the Group within 30 calendar days after a notice is served on the Group for such breach, RCA Management may terminate the RCA Licence Agreement with immediate effect.

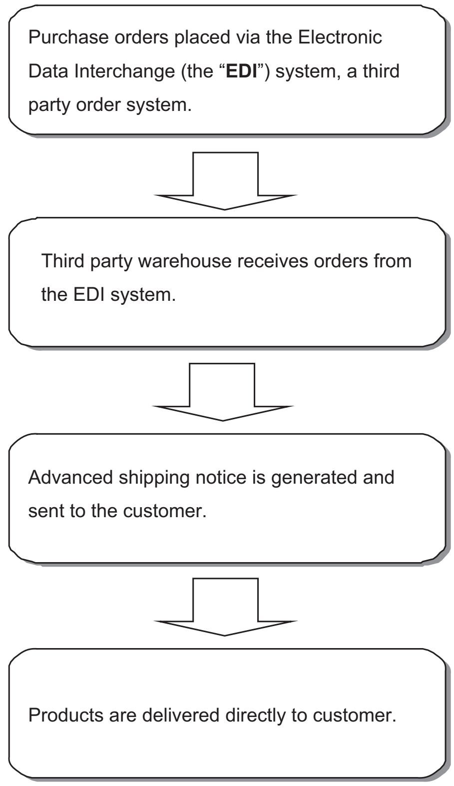
The Group has started preliminary discussion to renew the RCA Licence Agreement with RCA Management upon the expiration of the RCA Licence Agreement. However, in the event that the RCA Licence Agreement is not renewed, the Group will develop its SMB phone systems distribution business in North America either through its own developed brand or other brands to be acquired by the Group.

SMB phone systems distribution business

The SMB phone systems under the "RCA" brand distributed by the Group in North America include two-line and four-line SMB phone systems with different features such as corded, cordless, VoIP, intercom and conferencing features. These SMB phone systems are mainly produced by the Group's production facilities in Guangzhou and Huizhou. TFNA (US) was established to coordinate and operate the distribution business of SMB phone systems under the "RCA" brand to office supplies and equipment superstores and other distributors in North America. TFNA (US) is also responsible for assessing the qualification of the authorised distributors on continuing basis and negotiate the terms of distributorship agreements. TFNA (US) liaises with its customers in North America to enquire the estimated orders that may be made by such customers within two to three months, then projects the estimated demand for SMB phone systems to the Group's production plants in the PRC. The Group's production plants in the PRC will manufacture such quantities of SMB phone systems according to the projected demands. The SMB phones, which are manufactured according to the projected demands, will be delivered to the warehouse service provider in North America, an Independent Third Party.

Note: During the Track Record Period, the Group has altered or developed seven existing or new designs of SMB phone systems to cater to customers' demand.

The key steps involved in the licensed brand products distribution business in North America are as follows:



The Group enters into supply agreements with its customers, including office supplies and equipment superstores in North America. In addition, the Group enters into distributorship agreements with certain Independent Third Parties to qualify them as its authorised distributors to distribute SMB phone systems under the "RCA" brand in North America. Please refer to the paragraph headed "Marketing and distribution – Branded businesses" under the sub-section headed "Sales and marketing" in this section for further details of the marketing and distribution arrangement in North America.

To facilitate the placement of purchase orders for SMB phone systems, the Group engages an Independent Third Party to operate an online EDI-based ordering platform. Upon receipt of purchase orders from its customers or distributors, the Group arranges for transportation of SMB phone systems to the destination designated by the customers or distributors. In general, the Group keeps three months' inventory including goods in transit for its branded businesses to cater to the demands of its customers and distributors.

Own brand products distribution business in Europe

In November 2009, the Group acquired certain assets and liabilities of TrekStor GmbH & Co. KG (in liquidation) under the TrekStor Transfer Agreement, including the assembly and/or distribution business of portable storage devices and/or multimedia products under the "TrekStor" brand. The Group's branded products marketed and distributed in Europe mainly comprise (i) portable storage devices such as USB memory sticks and hard disk drives; and (ii) multimedia products such as MP3 players and home entertainment devices. Please refer to the paragraph headed "Branded businesses – Portable storage devices and multimedia products under the "TrekStor" brand" under the section headed "History, Reorganisation and Group Structure – History and business development of the Group" in this prospectus for further details.

Arrangement with TrekStor GmbH & Co. KG (in liquidation)

Pursuant to the TrekStor Transfer Agreement, the Group acquired certain outstanding contractual obligations, tangible assets and intellectual property rights from TrekStor GmbH & Co. KG (in liquidation). The outstanding contractual obligations comprised mainly (i) purchase orders and sales contracts with the customers of TrekStor GmbH & Co. KG (in liquidation); (ii) lease agreements in connection with business premises and warehouse; (iii) outstanding obligations under insurance contracts; and (iv) the employment contracts. As at the Latest Practicable Date, the outstanding contractual obligations were settled either by due performance of the contractual obligations, the expiration of the contracts or entering into of new agreements. The tangible assets acquired by the Group include office furniture, assembly machineries and motor vehicles previously used by TrekStor GmbH & Co. KG (in liquidation) for its business operation whilst the intellectual property rights acquired by the Group mainly comprised the "TrekStor" trademarks, the "TrekStor" domain names, certain patents and petty patents.

In addition, under the TrekStor Transfer Agreement, it is agreed that a contingent consideration in an amount of not more than Euro 500,000 will be paid to TrekStor GmbH & Co. KG (in liquidation) in the manner as set out below:

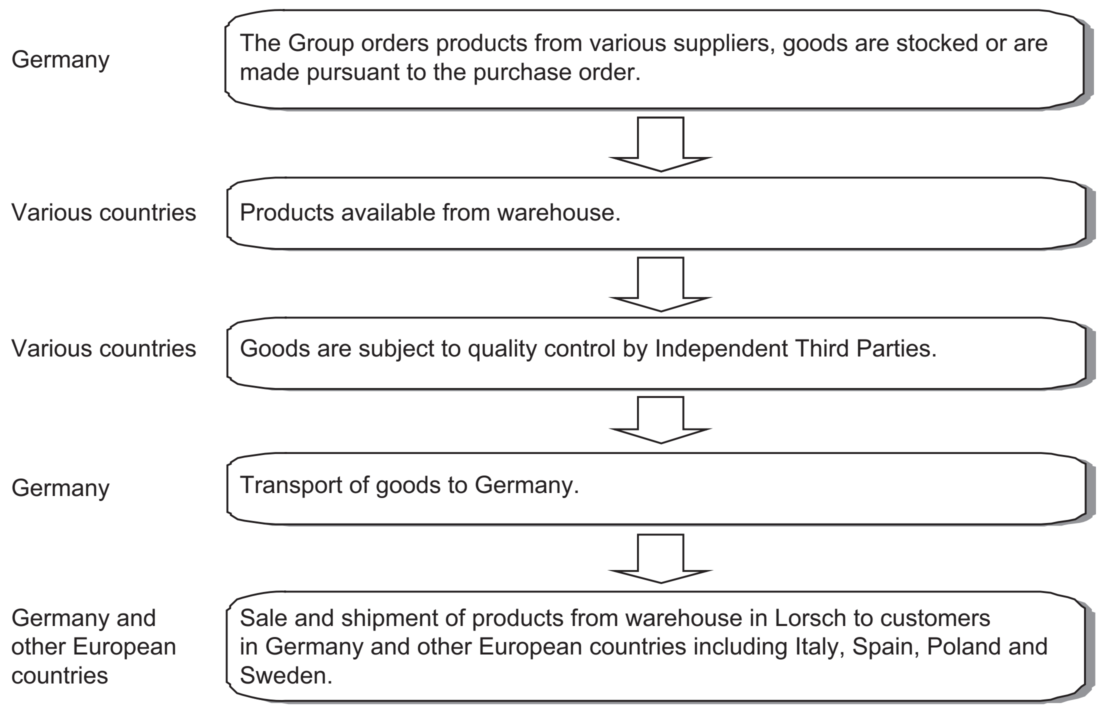
- TrekStor (HK) is obliged to pay TrekStor GmbH & Co. KG (in liquidation) the higher amount of (i) 10.0% of the total profits of TrekStor (HK) and TrekStor (Germany) (the "**Aggregate Profits**") of the next five years, whereas annual losses in this period will be deducted; or (ii) 5.0% of the profit for each year for the next five years, whereas payments are only due for years of profits, and in any event, not more than Euro 250,000 in the five-year period; and

- TrekStor (Germany) is obliged to pay TrekStor GmbH & Co. KG (in liquidation) the higher amount of (i) 10.0% of the Aggregate Profits of the next five years, whereas annual losses in this period will be deducted; or (ii) 5.0% of the profit for each year for the next five years, whereas payments are only due for years of profit, and in any event, not more than Euro 250,000 in the five-year period.

Portable storage devices and/or multimedia products assembly and/or distribution business

The Group's portable storage devices and multimedia products under the "TrekStor" brand include USB memory sticks, hard disk drives, MP3 players and home entertainment devices. In addition to the distribution business in Europe, the Group also conducts assembly of portable storage devices in Germany. The Group sources components from Independent Third Parties for assembly purpose.

The key steps involved in the own brand products distribution business in Europe are as follows:



New supply agreements and distributorship agreements were entered into with the Group's customers and authorised distributors, including electronics superstores and other retailers mainly in Germany and various other countries in Europe. Please refer to the paragraph headed "Marketing and distribution – Branded businesses" under the sub-section headed "Sales and marketing" in this section for further details.

PRODUCTS

Product types

As at the Latest Practicable Date, the Group offered over 20 types of products which can be broadly classified into two categories, namely, telecommunications and non-telecommunications products. The Group's non-telecommunications products include (i) appliances and appliances control products; (ii) computer accessories; (iii) multimedia products; and (iv) beauty care equipment. The following table sets forth a breakdown of the Group's gross profit and gross profit margin ("**GPM**") for its products from external customers for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2007		2008		2009		2009		2010	
		GPM		GPM		GPM		GPM		GPM
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Telecommunications products	19,075	5.8	31,078	8.7	48,936	17.0	28,365	16.8	43,443	21.3
Non-telecommunications products	47,180	20.0	105,252	21.4	138,796	26.0	87,754	26.7	109,022	22.5
Total gross profit and overall GPM	66,255	11.7	136,330	16.1	187,732	22.8	116,119	23.4	152,465	22.1

Revenue generated from the sales of one of the Group's appliances and appliances control products, namely automatic aerosol dispensing systems, accounted for a substantial portion of the Group's revenue generated from its EMS business during the Track Record Period. The Group manufactured and sold automatic aerosol dispensing systems pursuant to a supply agreement (the "**AADS Supply Agreement**") with one of its customers, being an Independent Third Party (the "**AADS Customer**").

Pursuant to the terms of the AADS Supply Agreement, the AADS Supply Agreement shall be valid until terminated as follows:

- the AADS Customer may terminate the AADS Supply Agreement by serving not less than 30 days written notice on the Group;
- in the event that the AADS Customer fails to make timely payment pursuant to the provisions under the AADS Supply Agreement and such failure is not cured within 30 days upon receipt of written notice from the Group;
- in the case of gross and wilful negligence by the other party, termination may take immediate effect; and

- either party thereto may terminate the AADS Supply Agreement with immediate effect upon commencement of a voluntary or involuntary proceeding under any bankruptcy, insolvency, reorganisation, liquidation, dissolution, or similar law, or the appointment of a successor, trustee, custodian, sequestrator, liquidator, receiver, or similar official with respect to the other party thereto, or the winding-up or liquidation of the other party therein, effective upon giving written notice of termination.

In the event that the AADS Supply Agreement is terminated by either party thereto, the Group would focus on its business strategies to develop its business in the medical electronics and car electronics market segments. Please refer to the paragraph headed "Focus on potential market segments to target higher profit margin opportunities" under the sub-section headed "Business strategies" in this section for further details.

Telecommunications products

The Group's telecommunications products are categorised as follows:

Corded/cordless residential telephone

A corded/cordless combo phone using various digital technology at 1.9/2.4 GHz frequency for communication.

*Two-line SMB phone system**

A two-line corded/cordless small or medium business phone with multi-handset using 1.9GHz DECT 6.0 digital technology.

*Four-line SMB phone system**

A four-line corded/cordless small or medium business phone system with intercom and conferencing features.

* *Price range of SMB phone systems as at 31 August 2010: approximately HK$170.0 to HK$1,280.0*

Non-telecommunications products

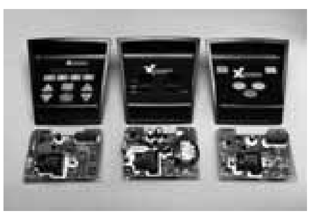
The Group's non-telecommunications products are categorised as follows:

Appliances and appliances control products

Security token

Internet security token/device for Internet banking use.

Blender control panel



A control module for an industrial grade blender's control panel.

The Group also produces automatic aerosol dispensing systems for dispensing chemicals on fumigate.

Computer accessories

Portable hard disk drive*

A card size hard disk drive as a data station.

Pico projector

A very small size portable projector employing DLP technology.

* *Price range of portable hard disk drives ("**HDD**") devices and portable non-HDD devices as at 31 August 2010: approximately HK$209.0 to HK$1,464.0 and HK$49.0 to HK$565.0, respectively*

*Multimedia products**

Audio/video receiver

A high-end home theatre system for entertainment with AM/FM radio receiver.

DVD receiver music centre

A mini-home theatre system with AM/FM radio receiver.

Movie station

A high-definition media center that can interface with the Internet and various digital storage devices to provide high definition movies/pictures for television.

Wireless remote speaker

A device to playback the music to speaker through wireless link with no speaker wires.

Network movie station

A device to enable viewing of Internet content on television.

* *Price range of HDD multimedia products and non-HDD multimedia products as at 31 August 2010: approximately HK$482.0 to HK$1,821.0 and HK$62.0 to HK$1,671.0, respectively*

iPod docking station

A device which extends the function of iPod to a multimedia centre.

Beauty care equipment

Electro-muscular simulator

A muscular simulator using adjustable high frequency to massage the body.

Ultra-sonic facial and/or body massager

A facial massager using ultra sonic frequency to gently massage the face.

Body fat analyser

A hand held body fat analyser which measures the body fat.

CUSTOMERS

The Group's EMS customers are mainly international brand owners of consumer electronic products, including brand owners of "Pioneer" and "Vasco", the aggregate revenue generated from whom accounted for approximately 42.6%, 26.6%, 26.0% and 19.2%, respectively, of the Group's total revenue for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010. As at the Latest Practicable Date, the Group had over 20 major EMS customers, spreading across Japan, the Asia-Pacific region, the Americas and Europe. The Group has established long-term business relationships with its major EMS customers for more than five years. The Group proactively explores and seeks collaborative opportunities with its key customers. In respect of the Group's branded businesses, whilst the major customers of the SMB phone systems under the "RCA" brand are mainly office supplies and equipment superstores and other distributors in North America, the major customers of portable storage devices and multimedia products under the "TrekStor" brand are mainly electronics superstores and other retailers mainly in Germany and various other countries in Europe. As at the Latest Practicable Date, the Group had over 70 branded business customers in Europe and North America.

Sales to the Group's five largest customers, all being Independent Third Parties, accounted for approximately 84.4%, 77.7%, 68.6% and 70.3% of the Group's total revenue for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. Sales to the largest customer of the Group accounted for approximately 28.7%, 25.6%, 28.7% and 33.1% of the Group's total revenue for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. None of the Directors or any of their respective associates, or any Shareholder who owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date, held any interest in any of the Group's five largest customers during the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010.

SALES AND MARKETING

The Group's sales and marketing strategies focus on providing an extensive portfolio of quality consumer electronic products to niche market segments, with attentive after-sales services in order to foster customer loyalty.

Marketing and distribution

EMS business

The Group's sales and marketing team and project management team maintain a direct dialogue and work closely with its customers in order to ensure that their specifications and expectations are met. During the Track Record Period, the Group had provided on-site space and facilities in its production sites for certain EMS customers to conduct product quality assurance testing.

Branded businesses

The Group relies on its sales and marketing team to promote and distribute its branded products to retailers, such as office supplies and equipment superstores and electronics retailers in North America and Europe (as the case may be). The Group also engages authorised distributors to promote its branded products to other retailers: (i) in North America, authorised distributors have been engaged to promote the Group's branded products to small retailers; and (ii) in Europe, authorised distributors have been engaged to promote the Group's branded products to customers outside Germany.

Licensed brand business in North America

The Group currently distributes a range of SMB phone systems under the "RCA" brand, which are marketed and distributed to office supplies and equipment superstores and other distributors in North America. The Group maintains a team of sales representatives in the US for its SMB phone systems distribution business in North America. Its sales representatives pay visits to the headquarters of such office supplies and equipment superstores and other distributors.

The Group appointed four authorised distributors for its licensed brand business in North America for each of the year ended 31 December 2009 and the eight months ended 31 August 2010. The Group has not developed and entered into any standard distributorship agreements with its authorised distributors, thus the terms of the distributorship agreements may vary on a case-by-case basis.

Own brand business in Europe

Portable storage devices and multimedia products under the "TrekStor" brand have been marketed and distributed to electronics superstores and other retailers mainly in Germany and various other countries in Europe. The Group maintains a team of sales representatives in Germany for its portable storage device and multimedia product distribution business in Germany. The sales representatives pay visits to major electronics superstores in Germany. In relation to the marketing activities in other countries in Europe such as Sweden, the Group relies on its authorised distributors, who are Independent Third Parties, to promote its products and "TrekStor" brand awareness.

The Group appointed nine and 21 authorised distributors for its own brand business in Europe for the year ended 31 December 2009 and the eight months ended 31 August 2010, respectively. Similar to the Group's licensed brand business in North America, the Group has not developed and entered into any standard distributorship agreements with its authorised distributors, thus the terms of the distributorship agreements may vary on a case-by-case basis.

Distributorship arrangement

The Group has adopted a set of uniform procedures to review and approve the distributorship agreements with its authorised distributors in North America and Europe. The major terms of the distributorship agreements may include:

- ***exclusivity*** – the Group may grant exclusive or non-exclusive distribution rights to its distributors: (i) in North America, it is the Group's policy to grant non-exclusive distribution rights; and (ii) in Europe, the Group adopts the policy to engage exclusive distributor to promote its products in a particular country;

- ***pricing policy*** – the Group requires the authorised distributors to sell the products in accordance with the price lists provided by the Group in North America and Europe, and the Group requires its authorised distributors to sell the products at a minimum price set by the Group;

- ***distributorship fee or commission policy*** – the authorised distributors generally do not receive commission, instead, they are entitled to purchase the Group's branded products at a discount on the relevant retail price;

- ***credit terms*** – the Group usually grants 30 to 180 days credit terms to its authorised distributors;

- ***minimum purchase target*** – the Group has not set any minimum purchase target for its authorised distributors, however, the Group usually requires its authorised distributors to place a minimum amount per purchase order;

- ***product liability*** – the Group usually guarantees that the quality of the products provided are in compliance with the requirements under the applicable laws and regulations in the US, Canada, Germany or the European Union (as the case may be);

- ***defective goods*** – any defective goods may be returned to the Group for replacement or refund;

- ***duration*** – the Group usually enters into distributorship agreements with its authorised distributors on an annual basis;

- ***confidentiality*** – the authorised distributors are required to keep any confidential information provided by the Group, such as price lists and supply sources confidential; and

- ***termination*** – the distributorship agreements may be terminated by the Group by serving written notice on the authorised distributors or on an occurrence of events of default as stated in the relevant distributorship agreements.

For the year ended 31 December 2009 and the eight months ended 31 August 2010, the amount of defective goods returned to the Group for replacement or refund by its authorised distributors in North America and Europe was approximately HK$8.1 million and HK$15.3 million, respectively.

The Directors are considering to formulate a standard distributorship agreement which will include the above-mentioned major terms for its licensed brand business in North America and own brand business in Europe which is expected to become effective by early 2011. The Directors will consider to sign the newly adopted standard distributorship agreement with its authorised distributors after expiry of the existing distributorship agreements with certain variations to be made upon different circumstances. Given that the Group has adopted a set of uniform procedures to review and approve the distributorship agreements with its authorised distributors in North America and Europe, the Directors are of the view that the lack of standard distributorship agreement as at the Latest Practicable Date would not expose the Group to any material risks.

The authorised distributors are the Group's customers as they purchase the products from the Group and re-sell such products to retailers. Certain distributors in North America are entitled to receive commission which is calculated based on a certain percentage of the amount of products sold by them. The Group records sales in its accounts whenever shipment was made to its authorised distributors. Since June 2010, the Group has also engaged an Independent Third Party (the "**Inventory Vendor**") to distribute its portable storage devices and multimedia products under the "TrekStor" brand in Germany and Austria on consignment basis. The Group treats such Inventory Vendor as independent warehouse service provider and sales are recorded when the Inventory Vendor sells the products to a customer. As at 31 August 2010, the outstanding consignment inventory amounted to approximately HK$1.1 million. To the best knowledge of the Directors after making reasonable enquiries, the Directors are not aware of any past or existing relationship between the Inventory Vendor and each of the Group's authorised distributors.

Promotion

From time to time, the Group participates in exhibitions and international trade fairs in relation to consumer electronic products, such as Centre of Office and Information Technology (CeBIT), Internationale Funkausstellung Berlin (IFA), Hong Kong Electronics Fairs and National Electronic Packaging and Production Conference (NEPCON). These marketing activities keep the Group's management abreast of industry trends, interacting with existing customers, cultivating new relationships and building brand awareness.

The Group's websites serve as an effective promotional platform for its products as well as a communication channel with its customers. The information provided in the websites includes the Group's news and culture, promotional activities, service and management, and information about products of the Group's EMS and branded businesses.

Pricing policy

All EMS sales are conducted on the basis of purchase orders, the prices for which are negotiated on a case-by-case basis with each customer. The Group typically enters into sales contracts with most of its customers. The selling prices of the Group's EMS products are determined based on a number of factors including (i) production costs (including costs of raw materials and components); (ii) manufacturing overheads, size of order and shipping destination; and (iii) the market demand and potential sales of such product. The Group adjusts the prices of its products according to the variations of the above-mentioned items.

In terms of its branded products, the Group determines the relevant prices based on (i) the production costs of the products; and (ii) the market prices of similar products. In order to fix competitive prices for the branded products, the Group's sales and marketing teams in North America and Europe maintain close dialogues with its customers, including superstores and distributors, which allows them to understand the market demand and obtain customers' feedback.

Credit policy and credit control

The Group offers various sales terms to its customers, which are based on a number of factors, including product type, size of order, production costs and credit worthiness of a particular customer. The Group may offer credit terms to its customers ranging from 30 to 180 days. The customers generally settle the payments in Euro or U.S. dollars either by letters of credit, bank remittance or cheques. The finance department is responsible for preparing monthly statements to the Group's customers, monitoring credit history and outstanding balances of each customer. It is also responsible for collecting payments from customers. In the event that there is an overdue balance, the finance department will alert the sales and marketing team and the senior management of the Group, who will liaise with the customers to seek prompt settlement of the overdue balance.

For new customers, the Group will evaluate the customer's credit worthiness by considering the customer's financial standing and operating track record and by engaging the Group's industry contacts and credit search agencies to conduct credit searches. Based on the information obtained, the Group will decide the actual credit terms and limits to be granted. From time to time, the Group may also obtain factoring of debts of certain customers to minimise the risk of any impact on the Group upon default by such customers.

The Group has adopted a policy of making specific provision for outstanding trade receivables. The provisions for doubtful debts are made based on the management's judgment following an evaluation of aging analysis, past payment history, recent news and information about the debtor which results in a thorough assessment of the recoverability of the outstanding receivables. No general provision for doubtful debts will be made. Instead, trade receivables will be evaluated on an individual basis with specific provision for doubtful debts being made when necessary. The Group had not experienced any material payment defaults from its customers during the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group recorded net allowance for bad and doubtful debts in the amount of approximately HK$1.7 million, HK$0.9 million, HK$0.2 million and nil, respectively.

Seasonality

The Group's revenue during the Track Record Period had been subject to significant seasonal fluctuation, as the sales orders during the period from July to December are often higher than that during the period from January to June. For the three years ended 31 December 2007, 2008 and 2009, the average revenue of the Group for each of the second half year was approximately 39.2% more than the revenue for each of the first half year. The Directors believe that this pattern is likely to continue in the foreseeable future.

AFTER-SALES SERVICES

Maintenance and repair services

The Group places a strong emphasis on customer service and therefore maintains an after-sales service network. The after-sales services are easily accessible, as the Group offers a hotline to handle enquiries and orders for after-sales services. For the Group's EMS products, its customers may return products with quality problems to the Group for replacement.

The Group engages Independent Third Parties to operate a 24-hour call centre in North America and Europe so that any queries from the end-users of its branded products may be promptly attended. For the Group's branded businesses, the customers may return goods with quality problems within a prescribed time limit to the Group. The Group will engage engineer(s) who is/are Independent Third Party(ies) to test the quality problems of SMB phone systems under the "RCA" brand in the event that the designated call centre could not resolve the customers' enquiries. In relation to portable storage devices and multimedia products under the "TrekStor" brand, the Group has its own in-house engineers in its repair centre in Germany to repair the products with quality problems.

Sales return policies

In terms of the Group's EMS business, the Group liaises with its EMS customers for any alleged quality problems on a case-by-case basis. Unless the products suffer from fundamental failure or are recalled, the Group is not obliged to accept sales return by its EMS customers. In the event where there are sales return by its EMS customers, such costs will be borne by the Group. In relation to the branded businesses, the Group usually provides a two-year product warranty to its customers. As a result, if the Group receives complaints on the quality of the products, the Group will either repair or replace the relevant products. Pursuant to a supply agreement entered into between the Group and one of its major customers based in the US, such customer could return any products to the Group without provision of reasons under the "Return to Vendors" programme. For the year ended 31 December 2008, in light of the potential financial impact on the US economy arising from the subprime mortgage crisis, the Group made a general product warranty provision of approximately HK$5.0 million to cater to the possible increase in sales returns from such customer which was based in the US. In addition, a specific product warranty provision of approximately HK$4.9 million was made for the year ended 31 December 2008 for the estimated value of sales return from one of the Group's major customers due to design defect made by the Group. The approximately HK$4.9 million specific warranty provision had covered all the relevant costs in relation to the sales return of the relevant products. The design defect of this product was caused by its intermittent operation failure which was not detected during manufacturing and inspection stages. The Group worked closely with the customer to eliminate such design defect. The goods were repaired and received by the customer with satisfaction subsequently. Due to prompt and responsible actions taken by the Group, there were no adverse effects on the business relationship with such customer. Please refer to the sub-section headed "Quality assurance" in this section for the Group's quality assurance procedures for ensuring the quality of its products. With the commencement of branded businesses, additional product warranty provision of approximately HK$6.9 million and HK$4.2 million were made by the Group for its licensed brand business and own brand business, respectively, for the year ended 31 December 2009. All costs in relation to sales return by the Group's branded business customers are borne by the Group.

Save as disclosed above, during the Track Record Period, the Group had not experienced any material product recalls due to quality problems. The Group has been in compliance with all applicable product safety standards in its domestic and overseas markets during the Track Record Period and up to the Latest Practicable Date.

PRODUCTION

The Group offers one-stop solutions to its EMS customers including research and development, sourcing and procurement, production, sales and logistics and after-sales services. During the Track Record Period, a considerable proportion of the Group's revenue under the EMS segment was generated from its ODM customers to whom the Group provided one-stop solutions including research and development, sourcing and procurement, production, sales and logistics and after-sales services. The Group's production activities are mainly conducted in the PRC. The Group also maintains an assembly line in Germany for assembly of portable storage devices under the "TrekStor" brand.

Project team management approach

Set out below is a chart which depicts the Group's project team management approach used in its EMS business:

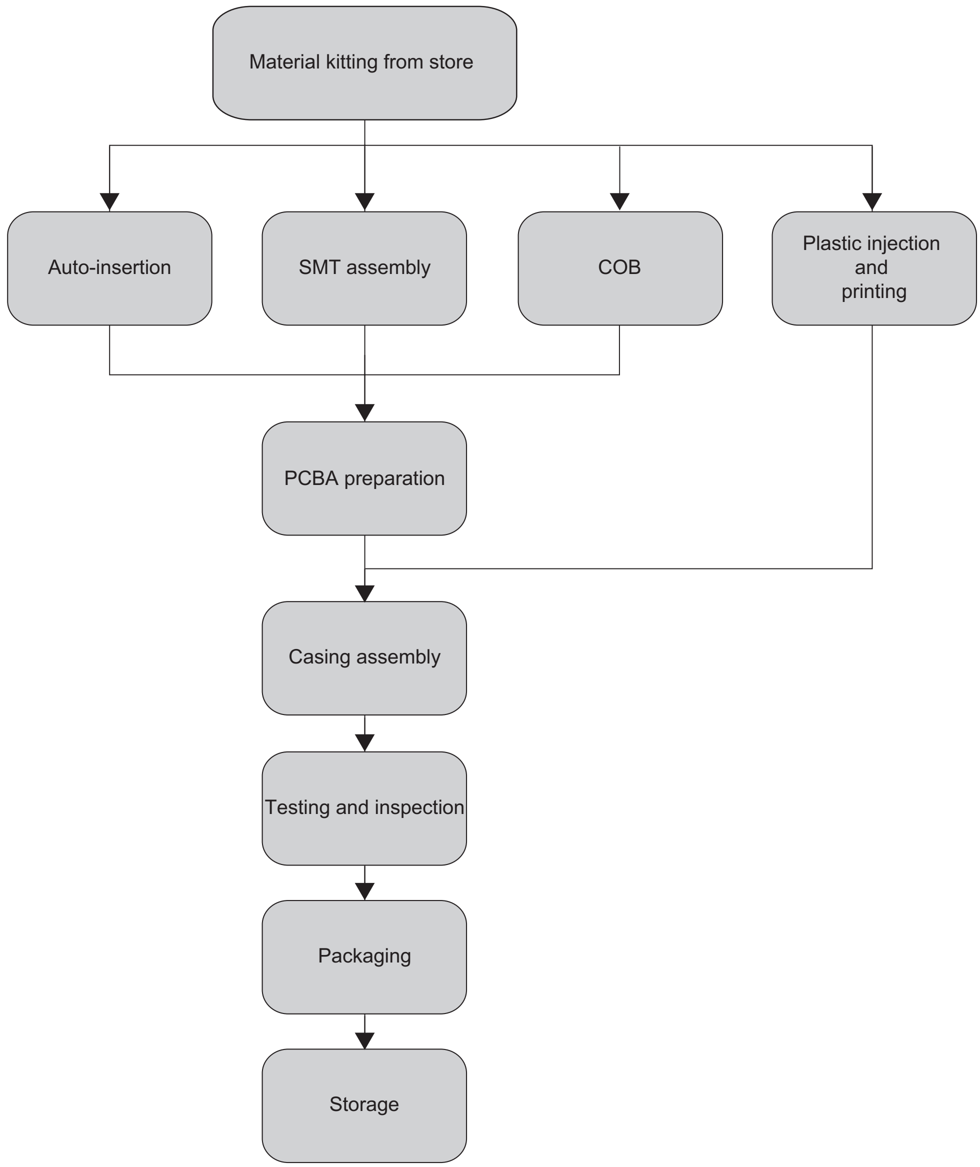
In order to ensure that production runs successfully and smoothly from pilot production to mass production, and to fulfil customer's expectations, dedicated project team management approach is implemented for all projects for the customers. Dedicated project team ("**PJT**") members will follow through the whole project progress including project planning, tracking, budgeting and scheduling. The PJT members' responsibilities include (i) customer service officers to provide a wide-range support per customers' needs on commercial, supply chain and logistics side; (ii) project engineers to look after and communicate with customers on all technical, production, and engineering issues; (iii) quality engineers to assure product quality assurance commitment and on-going product reliability testing to cope with customers' or industry's quality standards; and (iv) research and development engineers to follow through the whole design task for the project to cope with customers' ideas.

Order processing

Upon receipt of customer's purchase order for the Group's products, the Group's various departments will work together on pre-production planning and collaborate to formulate a production plan. Sales representatives will co-ordinate with the production and material control department and the purchasing department to achieve the best materials delivery schedules, confirm the expected product shipment date, and then issue internal sales orders for materials purchase and master production schedule planning. When the materials are ready, the production process will start according to defined production schedule.

Production process

The Group's production process principally involves the following processes:



Note:

Appropriate adjustments to the above processes will be made for individual product production.

After receiving the project confirmation from customers, the Group will design and produce prototypes based on customer's specifications and requirements. Thereafter, the PJT will conduct pre-production and pilot run for production process and product verification. Different tests and inspections are performed to ensure the quality of prototypes. Evaluation is conducted on various aspects including design, materials, workmanship, equipment, process, jigs and fixtures for improvement on production yield, efficiency and processing technologies.

After obtaining customer's final approval of the prototypes from pilot run, the Group will organise the production schedule, and allocate resources including manpower, equipment, tools, fixtures, raw materials and components required for the production. The Group commences production based on the prototypes, product specifications and packaging approved by the customer. The Group's products are generally subject to quality inspection and testing during the production process. The sales representatives of the sales department will monitor the whole production process and communicate with customers for enquiries and to ensure that the products can be completed according to the committed target on expected time of delivery.

Production facilities

The Group is headquartered in Hong Kong. Whilst a majority of its management team, administrative team and research team are located in Hong Kong, most of the Group's production and development activities are carried out in the PRC. The Group's PRC production facilities are located in Guangzhou and Huizhou, and it leases offices in Shenzhen where some of its administrative and development activities are conducted. Furthermore, the Group has warehouses in Hong Kong and Germany, and operates certain facilities for assembly of portable storage devices in Germany.

The following table sets out a brief summary of the Group's production and/or assembly facilities as at the Latest Practicable Date:

Location	**Background**	**Number of buildings and gross or net floor area as at the Latest Practicable Date**
First Industrial Zone, Zhuliao Town, Baiyun District, Guangzhou	Operated by Guangzhou Telefield since October 1992	The production site had four blocks of buildings, occupying a gross floor area of approximately 29,870.3 sq.m.
Technology Park, East of Yongshi Road, Shiwan Town, Boluo County, Huizhou	Operated by Huizhou Telefield since February 2008	The production site had two blocks of buildings, occupying a gross floor area of approximately 12,000.0 sq.m.
64653 Lorsch, Germany	Operated by TrekStor (Germany) since November 2009	The production site had three blocks of buildings, among which, two of them occupying a net floor area of approximately 1,080 sq.m. and the remaining one occupying a gross floor area of approximately 802 sq.m.

The following table shows the maximum annual production capacity, the estimated average utilisation rate and peak month utilisation rate for the Group's SMT production lines, automatic insertion machines and bonding machines for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2007	**2008**	**2009**	**2010**
Maximum annual production capacity (million units processed)				
SMT production lines	1,369.4	1,945.9	2,522.5	2,522.5
Automatic insertion machines	140.2	140.2	140.2	140.2
Bonding machines	538.7	1,131.7	1,131.7	1,131.7
Estimated average utilisation rate (%)				
SMT production lines	83.1	92.8	71.6	81.1
Automatic insertion machines	102.2	103.0	81.7	97.7
Bonding machines	104.0	81.1	50.4	60.7
Estimated peak months utilisation rate (%)				
SMT production lines	122.6	135.5	99.9	97.7
Automatic insertion machines	142.1	144.6	126.0	125.2
Bonding machines	137.1	115.1	71.1	82.2

Notes:

(1) Maximum annual capacity for SMT production lines, automatic insertion machines and bonding machines are measured in machine hours and calculated based on the following formula:

Number of machines X Number of units per machine per hour X 22 hours per day X 26 days per month X 12 months.

(2) Estimated average utilisation rates are computed based on the actual number of units produced divided by the estimated maximum annual production capacity, whilst estimated peak month utilisation rates are computed based on the same method on a monthly basis.

(3) Utilisation of the Group's production lines and machines had often exceeded their maximum capacity during the Track Record Period. This was mainly achieved through (i) increasing machine hours by engaging labour to work extra overtime; and (ii) increasing output per machine hour by producing at a rate exceeding the optimal maximum output rate recommended by the machine vendors.

The decrease in the utilisation rates of the Group's SMT production lines, automatic insertion machines and bonding machines was mainly attributable to (i) the slight decrease in the Group's revenue for the year ended 31 December 2009; and (ii) the change in product mix reduced the number of parts processed by these machines as production shifted towards products that required relatively less parts to be processed by these machines.

In order to support the Group's EMS business, as at the Latest Practicable Date, the Group's production sites in Guangzhou and Huizhou were equipped with 17 SMT production lines with machines of international brands. Most of the Group's production facilities, namely, the SMT production lines and COB lines, are standard manufacturing equipment used in the consumer electronic products industry. As such, the Directors believe that the Group's production facilities can be used interchangeably to produce different types of consumer electronic products. The Directors believe that the Group's production facilities and equipment are capable of being used for the production of other types of consumer electronic products for other customers. The Directors further believe that the Group's production facilities only require minor adjustments to accommodate different specific requirements from different customers. To further enhance the Group's technological capabilities and ensure that it is equipped to deliver effective and leading-edge solutions, the Directors intend to invest not less than approximately HK$30.0 million and HK$25.0 million in the expansion of production capability and acquisition of land and buildings, respectively. The Directors intend to finance the investments by the net proceeds of the Share Offer and internal financial resources.

The Group schedules regular maintenance and repair programmes for its production facilities and equipment according to the annual production plans of the Group. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group incurred approximately HK$2.9 million, HK$4.0 million, HK$3.9 million and HK$3.0 million in repair and maintenance expenses, respectively. To the best knowledge of the Directors after making reasonable enquiries, the Group had not experienced any material disruption caused by equipment failure during the Track Record Period.

Value-added services in EMS business

The Group's value-added services form an integral part of the one-stop solutions offered to its EMS customers:

- ***research and development*** – the Group provides research and development services to its customers at their request, any results of research and development belong to the relevant customers;

- ***sourcing and procurement*** – the Group plans the manufacturing resources for its customers and procures raw materials and components from geographically diverse suppliers for its customers;

- ***sales and logistics*** – the Group provides logistics planning and execution services including import/export management, global direct drop shipment and distribution services tailored to meet different needs of diverse customers; and

- ***after-sales services*** – the Group maintains direct dialogue with its customers to enquire their feedbacks on the products supplied by the Group, in particular the quality of the products. Upon request by customers, the Group repairs returned goods from customers and/or re-model products to meet latest market demand change.

During the Track Record Period, a considerable proportion of the Group's revenue under the EMS segment was generated from its ODM customers to whom the Group provided one-stop solutions including research and development, sourcing and procurement, production, sales and logistics and after-sales services.

ENVIRONMENTAL PROTECTION

The Group is committed to conducting its business without adversely affecting the environment. Being an EMS provider, the Group may discharge noise, polluted air, sewage and solid wastes to the environment during its production process. In order to minimise the impact of its production to the environment at its production site in Guangzhou, the Group has established (i) a filtering system to filter the polluted air before discharge; and (ii) a sewage treatment facility to undertake sewage treatment before discharge. The Group has also established a filtering system to filter the polluted air before discharge at its production site in Huizhou. In addition, in order to comply with the applicable environmental laws and regulations in the PRC, the Group engages qualified sewage dealers, who are Independent Third Parties, to deal with highly contaminated sewage and solid wastes in Huizhou. The Directors believe that the Group has undertaken adequate measures to ensure compliance with relevant national and local environmental laws and regulations in the PRC.

As advised by the PRC Legal Advisers and confirmed by the Directors, the Group had been in compliance with all applicable PRC environmental laws and regulations in all material respects and had not been in breach of such laws and regulations during the Track Record Period. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, approximately RMB42,000, RMB964,000, RMB538,000 and RMB48,000, respectively, were incurred in compliance with the applicable environmental laws and regulations in the PRC. The said amount included the waste treatment charges and payment for various waste treatment equipment. The Directors expect the annual costs for future compliance with the applicable environmental laws and regulations in the PRC will be approximately RMB80,000. As at the Latest Practicable Date, the Group has not been subject to any material fines or legal proceedings involving non-compliance with any relevant environmental laws and regulations in the PRC.

In relation to the Group's assembly and maintenance centre in Germany, the assembly and maintenance services conducted in Germany do not discharge any potential harmful substances to the environment. Thus, the Group has not adopted any measures to prevent discharge of harmful substance to the environment. However, in order to protect the environment, any wastes that are recyclable are separated in different containers and sent to waste management service providers who are Independent Third Parties. The legal advisers to the Company as to German law advised the Company with respect to the relevant environmental laws applicable to the Group's operations in Germany. As confirmed by the Company's legal advisers as to German law, the Group has entered into all necessary agreements with waste disposal companies to ensure that the Group is in compliance with all applicable German environmental laws and regulations during the Track Record Period.

In addition to environmental regulations in the PRC, the Group also complies with international environmental regulations and standards. The Group's Guangzhou production facility obtained the ISO14001 (Environmental Management System) certification in 2009. The Group's products which are sold to countries in the European Union are also in compliance with the European Union's directive on RoHS (Restriction of Hazardous Substances Directives 2002/95/EC).

RESEARCH AND DEVELOPMENT

The Directors believe that strong research and development capabilities are crucial to maintaining the Group's competitiveness in the consumer electronic products market. As at the Latest Practicable Date, the research and development teams comprised over 100 skilled and experienced employees and engineers who were principally engaged in research and development for the Group covering electronic, software and mechanical engineering and intellectual property development. The Group's engineers are capable of designing (i) electronic circuits; (ii) software embedded in micro-controllers and testers; (iii) ASIC circuits; and (iv) cabinet parts and all related mechanical assembly parts. The Group's research and development teams developed various new types of telecommunications products, computer accessories and beauty care equipment. The Group's research and development expenses for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010 amounted to approximately HK$11.0 million, HK$17.1 million, HK$18.8 million and HK$11.9 million, respectively, representing approximately 1.9%, 2.0%, 2.3% and 1.7% of the Group's total revenue, respectively.

As an EMS provider, substantially all of the Group's research and development results were properties of the relevant customers as stipulated under the supply agreements. Therefore, although the Group had conducted a number of research and development projects, the Group had not made any patent registration for results from such projects. However, in order to protect the research and development results, it is the Group's policy to require its employees to enter into a non-disclosure agreement.

In addition to the Group's in-house strengths in research and development and its partnership with its customers, the Group may engage external research development resources from tertiary institutions to further strengthen its research and development capabilities. In June 2009, the Group sponsored The Hong Kong Polytechnic University on a project entitled "R&D Platform for New Generation Beam-former for Medical Ultrasound Scanner" in an amount of HK$300,000. The project commenced on 1 April 2010, under which the Group is entitled to enjoy priority use of the research results in the development of ultrasound technology used in beauty care equipment and ultimately in medical equipment. As at the Latest Practicable Date, the Group had not formulated any business plan to utilise the results of the research conducted by The Hong Kong Polytechnic University. Furthermore, the Group has established a research and development centre in the Hong Kong Science Park, employing doctoral or post-tertiary graduates to research and develop technologies that can be used in the Group's future products, including (i) antenna and receivers designed for GPS and satellite products; (ii) Internet video communication platform; and (iii) ultrasound diagnostic and therapy. Building on the Group's experience with The Hong Kong Polytechnic University in ultrasonic imaging technology and coupled with in-house engineers who have prior experiences in the ultrasonic related technology and respiratory monitoring areas, the Group plans to devote both in-house and external resources to the research and development of medical electronic equipment and products in the ultrasonic imaging and respiratory monitoring areas.

QUALITY ASSURANCE

The Group is committed to supplying quality products and providing quality services that consistently meet or even exceed its customers' expectations. The Group has placed a strong emphasis on quality assurance and has adopted stringent quality assurance procedures at different stages of its business operation including the pre-production process, the procurement of raw materials and components and the monitoring of production process and the inspection of finished products to ensure the quality of its products.

The Group's production facilities have obtained various quality standard certifications including ISO9001 certification for its quality management system in 1998 and ISO13485 certification for its management system for design and manufacture of medical device in 2008. The ISO certification process involves subjecting the Group's production processes and quality management system to annual reviews and observations for various periods. Further details of the ISO certifications are set out in the sub-section headed "Accreditations" in this section.

As at the Latest Practicable Date, the Group had a team of more than 400 staff who were responsible for quality control and quality assurance. The Group also has an independent quality assurance department that reports directly to the Group's management on product quality matters. Quality assurance functions are performed throughout the production process from the raw materials and components procurement stage to product delivery stage to ensure that the products can meet the required national standards and certain industry standards applicable to such products. Industry standards for products adopted by the Group include:

(i) IPC-A-610D Acceptability of Electronics Assemblies for PCBA workmanship requirements;

(ii) RoHS (Restriction of Hazardous Substances Directives 2002/95/EC); and

(iii) REACH (Registration, Evaluation, Authorisation and Restriction of Chemical substances).

The Group's products are also in compliance with various international safety standards including:

(i) FCC standards – product standards which are applicable to telephone and IT;

(ii) UL standards – standards for product safety;

(iii) CSA standards – standards for product safety and performance;

(iv) China Compulsory Certification – a mandatory certification system concerning product safety in China; and

(v) CE – European Union consumer safety, health or environmental requirements.

The Group's major quality assurance procedures are as follows:

(i) ***Pilot production quality inspection*** – during the product design and development stage, the Group places a strong emphasis on different phases of product qualification to ensure that the products can achieve the optimal design in terms of specification, safety and reliability prior to the beginning of mass production.

(ii) ***Incoming quality inspection*** – the Group performs routine inspections and sample testing on raw materials and components before they are used in the production process to ensure that such materials and components comply with its required quality standards. The Group maintains an approved vendor list which enables the Group to monitor and maintain a stable source of raw materials and components supply, which can meet the required quality and specifications. System checks on new suppliers qualification and current suppliers periodic surveillance covering production capacity, capability and quality system enable the Group to maintain an up-to-date assessment of the suppliers' capability as qualified suppliers.

(iii) ***In-process quality inspection*** – the Group carries out in-process quality inspection at various control points within the production process. The Group's employees are trained and qualified to perform inspection and testing to ensure compliance with product standards and specifications as requested by the Group's customers.

(iv) ***Outgoing quality inspection*** – the Group's quality assurance team performs outgoing inspection and performance test on all finished products prior to their delivery to customers to ensure compliance with required specifications and quality standards. Products which do not meet the quality standards will be returned to the Group's production facilities for corrective actions. In order to meet the customers' quality standards and to minimise the Group's product warranty cost, the quality assurance team will conduct periodic functional and reliability tests on finished products as part of the Group's on-going quality assurance programme.

The Directors believe that these stringent quality assurance procedures contribute to the overall low defective rate of the Group's products. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group incurred approximately HK$9.0 million, HK$15.4 million, HK$18.0 million and HK$13.9 million for net sales return arising from product warranty, representing approximately 1.6%, 1.8%, 2.2% and 2.0% of its total revenue, respectively. The increase in the net sales return arising from product warranty was attributable to the increasing sales under the Group's branded businesses. Please refer to the paragraph headed "Sales return policies" under the sub-section headed "After-sales services" in this section for further details. During the Track Record Period, after taking into account the insignificant amount of net sales return arising from product warranty as compared with the Group's total revenue, the Directors were not aware of any material complaints or claims related to product quality encountered by the Group, or any material sales returns experienced by the Group, which reflected well on its quality control and quality assurance capabilities and reinforced its reputation in the market.

RAW MATERIALS, COMPONENTS AND SUPPLIERS

Raw materials and components

The sourcing and procurement functions of the Group are performed by its purchasing department which works closely with the marketing and engineering teams. The principal raw materials and components used in the Group's production include ICs, PCBs, plastic, motor and battery. The cost of raw materials for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010 were approximately HK$425.8 million, HK$604.5 million, HK$532.2 million and HK$445.7 million, respectively, representing approximately 85.5%, 84.9%, 83.9% and 83.0% of the Group's total costs of goods sold, respectively.

Suppliers

The Group has established business relationships with most of its five largest suppliers for more than five years. The Group has not entered into any long-term supply agreements with its suppliers as the Directors believe that its raw materials and components are not unique in nature and alternative sources can be easily identified. The Group settles its purchases mainly in HK dollars, Renminbi and U.S. dollars and by way of letters of credit, bank remittance and cheques with its suppliers with generally 30 to 90 days credit terms.

The Directors believe that the Group maintains good relationships with its suppliers by (i) implementing a set of transparent suppliers selection procedures by giving the Group's norms of quality requirements and procedures to all of its suppliers; (ii) providing clear communication to the suppliers so that they can approach appropriate staff and/or management if any issues arise; and (iii) visiting its suppliers to maintain the relationships and to review the issues raised from both sides. During the Track Record Period, the Group had not encountered any substantial difficulties in sourcing its raw materials and components and there had been no material legal dispute between the Group and its suppliers.

At the request of the customers at the quotation stage, the purchasing department will often send out the required specifications to a number of suppliers for quotation so as to compare their prices as well as sample quality. It will then choose the most suitable supplier and perform a quality system audit with staff from the engineering, purchasing and quality assurance departments. The Group maintains an approved vendor list for each of its principal raw materials and components and reviews the list periodically.

For products under the "TrekStor" brand, the Group sources semi-finished or finished products from various Independent Third Parties. The semi-finished or finished products will be shipped to Germany and the Group will undergo assembly process and/or various quality assurance and testing procedures before they are distributed under the "TrekStor" brand mainly in Germany and various other countries in Europe.

Generally, the Directors believe that the Group is not dependent on any one supplier for any of the raw materials or components since most of its principal raw materials and components are available from a large number of suppliers in the open market. The Group's five largest suppliers, all being Independent Third Parties, accounted for approximately 29.2%, 23.1%, 22.3% and 25.4% of the Group's total purchases for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The largest supplier of the Group, being an Independent Third Party, accounted for approximately 12.6%, 6.7%, 6.9% and 10.1% of the Group's total purchases for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. None of the Directors or any of their respective associates, or any Shareholder who owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date, held any interest in any of the Group's five largest suppliers during the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010.

INVENTORY CONTROL

The inventory of the Group's operations primarily consists of raw materials and components, work-in-progress, finished goods and goods in transit. The Group's EMS products are produced upon receipt of purchase orders from its customers. The Group employs the Kanban system, a demand pull production system which controls production through the use of demand signals. The use of the Kanban system ensures that the necessary products (or parts) are produced (or acquired) in the necessary quantities within the required time frame. This enables the Group to control its inventory level effectively. For branded products distribution, the Group usually keeps three months' inventory including goods in transit to cater to the changing demand for "RCA" and "TrekStor" branded products, whilst inventory levels for the Group's EMS business are kept at not more than two months on average.

The Group has established internal inventory management procedures to control the logistics and warehousing of its raw materials and components, work-in-progress and finished goods. The Group performs inventory counts on a regular basis for better control and management of its inventories. Generally, provision will be made for inventories which are considered obsolete after taking into account the aging of the inventory items, the movements and usefulness or residual value of the inventories. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group made net provisions for inventory obsolescence of approximately HK$0.3 million, HK$0.9 million, nil and nil, respectively.

COMPETITION

The Group operates in a highly competitive industry characterised by rapid technological development, evolving industry standards and short product life cycles. The EMS industry is fragmented and based on publicly available information, the Directors' industrial knowledge and experience, and having considered companies from across the world, the Directors note that a number of the companies headquartered in Hong Kong are engaged in similar EMS operations including Shinhint Acoustic Link Holdings Limited, Suga International Holdings Limited, Valuetronics Holdings Limited and VTech Holdings Limited.

The Group's overall competitive position depends upon a number of factors, including (i) the availability, performance and reliability of the Group's products; (ii) the Group's manufacturing capacity and capability; (iii) selling prices; (iv) the quality of the Group's manufacturing processes; (v) the breadth of the Group's product line; and (vi) the Group's ability to participate in the growth of emerging technologies.

The Group's competitors may have substantially greater financial, engineering and manufacturing resources as well as greater brand recognition and stronger customer relationships. For example, based on publicly available information, a company engaged in branded business operations with similar SMB telephony products in the US recorded a revenue of over US$1,500 million in 2009.

The Group competes directly with its competitors, in terms of distribution channels. Utilising the Group's sales networks, the Group's marketing personnel are constantly expanding the Group's business. With a view to vertically expanding its business, the Group's commencement of branded businesses since its licensing of the "RCA" brand and its acquisition of the "TrekStor" brand expanded and enlarged its customer base across a wider geographical region covering the Americas and Europe, respectively.

ACCREDITATIONS

The Group had renewed or had been granted the following accreditations during the Track Record Period:

Accreditations	Issuing organisation	Date of issue	Term of validation
ISO 9001 Certification Quality Management System	SGS	October 2010	January 2012
ISO 14001 Certification Environmental Management System	SGS	September 2009	September 2012
ISO 13485 Certification Management System for Design and Manufacture of Medical Devices	SGS	November 2008	November 2011

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group registered 11 trademarks. Pursuant to the RCA Licence Agreement, TFNA (US) was granted an exclusive licence to distribute SMB phone systems under the "RCA" brand in North America from 1 March 2009 to 31 December 2013. Pursuant to the TrekStor Transfer Agreement, certain "TrekStor" related trademarks (i.e. those trademarks as set out in the paragraph headed "Intellectual Property Rights of the Group" in Appendix VI to this prospectus and are material to the Group's business) applied onto products distributed under the "TrekStor" brand will be assigned to TrekStor (HK) upon satisfaction of certain conditions under the TrekStor Transfer Agreement. These conditions have already been fulfilled and all "TrekStor" related trademarks that are material to the Group's business have been assigned to the Group. Please refer to the paragraph headed "Intellectual Property Rights of the Group" in Appendix VI to this prospectus for further details. Steps have been taken by the Group to complete the registration of the "TrekStor" related trademarks which are material to the Group's business under the Group's name. As at the Latest Practicable Date, two "TrekStor" related trademarks have been registered under the Group's name. Furthermore, as advised by the Company's legal advisers as to German law, there is no legal impediment for TrekStor (HK) to become the registered owner of the "TrekStor" related trademarks in Germany and in the European Union. However, TrekStor (HK) has to appoint a German representative for the registration of the German and a representative based in one of the countries in the European Union for the Community "TrekStor" related trademarks. Further details of the relevant agreement is set out in the paragraph headed "Summary of material contracts" in Appendix VI to this prospectus. Please also refer to the paragraph headed "Intellectual property rights" in Appendix VI to this prospectus for further details. During the Track Record Period, the Group has not experienced any infringement of its intellectual property rights by third parties. As at the Latest Practicable Date, the Group was not involved in any material litigation or legal proceedings for violation of intellectual property rights and there was no material violation of the same.

During the Track Record Period, the Group has used unlicensed computer software products in the course of its operations in the PRC. The Directors confirm that after such usage came to the attention of the Directors and the senior management, the Group has ceased to use such unlicensed computer software products since 1 January 2010. As advised by the PRC Legal Advisers, the legal consequences for the Group using unlicensed computer software products include, depending on the circumstances, ceasing the use, eliminating the adverse effects of the use, making an apology or paying compensation for damages for a maximum amount of RMB0.5 million. In addition, the Group may be required to pay a fine of RMB100 for each of the unlicensed software products used or a fine for a maximum amount of approximately HK$3.9 million. As at the Latest Practicable Date, the Directors were not aware of any actual or threatened legal proceedings in relation to the use of the unlicensed computer software products during the Track Record Period. Each of Mr. Cheng, Mrs. Cheng, Century Win and Dragon Fortune agreed to provide an indemnity for any loss incurred by the Group as a result of its use of the unlicensed computer software products in the course of its operations in the PRC during the Track Record Period.

As advised by RSM Consulting, the Group has adopted the following internal control measures to prevent any future use of unlicensed computer software products:

- issuing guidance to its employees to prohibit installation of unlicensed computer software on the office computers;
- conducting periodic checks on software licensing; and
- reporting the results of the periodic checks to the Group's management team.

INSURANCE COVERAGE

The Group maintains insurance policies in respect of its plants, production facilities and inventories covering losses owing to fire, flood and earthquake. It also maintains product liability insurance to cover any potential claims due to accidental bodily injury to third parties and accidental loss of or damage to the property of third parties arising from defects of its products produced. The Directors believe that such insurance coverage is adequate and customary to the EMS industry and the Group's products.

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the total amount of premium paid by the Group were approximately HK$950,000, HK$1,030,000, HK$2,418,000 and HK$2,029,000, respectively. During the Track Record Period and as at the Latest Practicable Date, the Group had not made and did not make or had not been subject to any material insurance claims and/or product liability claims.

The Group also maintains product liability insurances for its licensed brand business in North America and own brand business in Europe. During the Track Record Period, it had not received any material claims from third parties in relation to the use of SMB phone systems under the "RCA" brand or the use of portable storage devices and multimedia products under the "TrekStor" brand.

PROPERTY INTERESTS

As at the Latest Practicable Date, the Group had the following property interests in Hong Kong, the PRC, the United States, Germany and Luxembourg. A summary of description and the valuation certificates for the property rights to these properties are set out in Appendix IV to this prospectus.

Properties owned and leased by the Group in Hong Kong

The Group leases properties in Hong Kong for research and administrative purpose. As at the Latest Practicable Date, the properties comprised two units with a total gross floor area of approximately 384.6 sq.m. The Group also owns a property in Hong Kong for storage purpose. As at the Latest Practicable Date, the warehouse comprised one unit with a total gross floor area of approximately 683.0 sq.m.

In addition, the Group leases three units in Hong Kong for residential purpose, with an aggregate gross floor area of approximately 328.3 sq.m. Please refer to the section headed "Connected Transactions" in this prospectus for further details.

Properties leased by the Group in Guangzhou

The Group leases properties in Guangzhou for production and residential purpose. As at the Latest Practicable Date, the properties comprised four blocks of factory buildings and five blocks of dormitory with a total gross floor area of approximately 43,345.1 sq.m. (the "**Guangzhou Land**").

As advised by the PRC Legal Advisers, the landlords of the Guangzhou Land only possess Houses Site(s) Certificates (宅基地使用証). The landlords have not obtained any building ownership certificates for the production facilities built on the Guangzhou Land. Houses sites (宅基地) are types of land used for collective construction (集體建設用地). According to《中華人民共和國土地管理法》(the PRC Land Administration Law) (the "**Land Administration Law**"), houses site(s) cannot be used for construction of production facilities and/or staff quarters or leased to third parties. As a result, the Guangzhou Land leased by Guangzhou Telefield which is used for production and staff quarters has breached the Land Administration Law.

According to《關於竹料工業區的歷史發展過程的説明》(the Direction Concerning the History Development of Zhuliao Industrial Zone) issued by 廣州市白雲區竹料鎮經濟發展總公司 (Guangzhou Baiyun District Zhuliao Town Economic Development Corporation) and 廣州市白雲區鐘落潭鎮人民政府經濟辦公室 (the Economic Office of Zhong Luo Tan Town, Baiyun District, Guangzhou) (the "**Zhong Luo Tan Office**") on 15 December 2009, it is stated that due to the relaxation of land development policy along the coastal lines of the PRC after the Open Door Policy and especially during the 1990s, people's government(s) at or above town level was(were) authorised to issue Houses Site(s) Certificates. The owners could develop the relevant land after obtaining the Houses Site(s) Certificates. By the end of 1996, the peoples' government of Guangzhou promulgated that the peoples' government at town level could not further issue Houses Site(s) Certificates with effect from 1 January 1997, however, the government would recognise all the Houses Site(s) Certificates issued before 1 January 1997. According to《廣州市城市規劃局依申請公開政府信息決定書》(the Written Decision on Publication of Governmental Information upon Application by Guangzhou Town Planning Bureau) issued on 9 December 2009 and as confirmed by the Directors, the Guangzhou Land is situated in the Zhuliao Industrial Zone (竹料工業區) which has been temporarily planned by 廣州市白雲區城市規劃局 (Guangzhou Baiyun District Urban Planning Bureau) (the "**Baiyun Planning Bureau**") for industrial use. According to an interview with an official of the Baiyun Planning Bureau conducted by the Company accompanied by the PRC Legal Advisers on 8 June 2010, the planning of the Guangzhou Land for industrial use by the Baiyun Planning Bureau is subject to the confirmation of 廣州市城市規劃局 (Guangzhou Urban Planning Bureau) (the "**Guangzhou Planning Bureau**"). It was further stated that the Guangzhou Planning Bureau would not change the planning decision made by the Baiyun Planning Bureau in normal circumstances. However, as confirmed by the Zhong Luo Tan Office, the relevant procedures for issuing land use rights certificates to substitute Houses Site(s) Certificates are subject to promulgation.

Based on the above and as advised by the PRC Legal Advisers, (i) the Guangzhou Land is temporarily planned for industrial use subject to confirmation from the Guangzhou Planning Bureau; (ii) the landlords of the Guangzhou Land have issued confirmations confirming that all those liabilities arising from the title defects in relation to the Guangzhou Land shall be borne by them; (iii) as confirmed by an official of the Baiyun Planning Bureau, there is abundant land supply nearby the Guangzhou Land which the Group can relocate its production facilities on the Guangzhou Land within a reasonable period of time should the relevant governmental authorities regard the industrial use of the Guangzhou Land is illegal and is against the relevant laws and regulations in the PRC and order the Group to relocate its production facilities; and (iv) each of Mr. Cheng, Mrs. Cheng, Century Win and Dragon Fortune has issued a confirmation agreeing to compensate all those losses and damages incurred by the Group as a result of the relocation of the production facilities on the Guangzhou Land as a result of the relevant governmental authorities regard the industrial use of the Guangzhou Land is illegal and is against the relevant laws and regulations in the PRC. For each of the three years ended 31 December 2007, 2008 and 2009, the products manufactured at the production facilities located on the Guangzhou Land contributed no less than 90% of the total revenue for each of the respective year while for the eight months ended 31 August 2010, the products manufactured at the production facilities located on the Guangzhou Land contributed no less than 70% of the total revenue for the respective period. Should the relocation of the production facilities on the Guangzhou Land becomes mandatory, the Directors will arrange the relocation in stages so that production can be carried and by (i) the production facilities on the Guangzhou Land; (ii) the unused production capacity in Huizhou production facilities; and (iii) the newly established production facilities to ensure the Group can still meet the customers' demand during the relocation. The relocation time is expected to be approximately four months, and the relocation costs are expected to be approximately RMB12 million. In light of the contemplated implementation of transitional arrangement, the Directors are of the view that no material adverse financial or operating impact will be imposed on the Group if it is required to relocate from the Guangzhou Land.

Temporary Structures occupied by the Group in Guangzhou

The Group occupies two temporary building structures and had built an additional floor on one of the factory buildings located on the Guangzhou Land (the "**Temporary Structures**"). As advised by the PRC Legal Advisers, the Temporary Structures do not have relevant planning permits, construction permits and building ownership certificates, and may be subject to demolition order by the local competent authority and a maximum fine in an amount equivalent to the total construction costs of the Temporary Structures. As advised by the PRC Legal Advisers, the maximum penalty in relation to the Temporary Structures is approximately RMB700,000. Should the demolition of the Temporary Structures becomes mandatory, the time required for the demolition and relocation would be approximately two months, and the demolition and relocation costs would be approximately RMB0.5 million. The Directors are of the view that no material adverse financial or operating impact will be imposed on the Group if it is required to demolish and relocate the Temporary Structures.

Each of Mr. Cheng, Mrs. Cheng, Century Win and Dragon Fortune has issued a confirmation to indemnify the Group against any costs relating to the demolition of the Temporary Structures and any penalties imposed by the local competent authority in the PRC. As at the Latest Practicable Date, to the best knowledge of the Directors after making reasonable enquiries, they were not aware of any legal proceedings and/or administrative actions taken by the relevant governmental authorities in relation to the use of the Guangzhou Land for industrial use and the Temporary Structures.

Properties leased by the Group in Huizhou

The Group leases properties in Huizhou for production and residential purpose. As at the Latest Practicable Date, the properties comprised three blocks of buildings with a total gross floor area of approximately 14,667 sq.m.

Properties leased by the Group in Shenzhen

The Group leases properties in Shenzhen for development and administrative purpose. As at the Latest Practicable Date, the properties comprised four units with a total gross floor area of approximately 2,000 sq.m.

Properties leased by the Group in the United States

The Group leases properties in the United States for administrative purpose. As at the Latest Practicable Date, the properties comprised one unit with a total gross floor area of approximately 225.1 sq.m.

Properties leased by the Group in Germany

The Group leases properties in Germany for administrative, assembly and storage purpose. As at the Latest Practicable Date, the properties comprised three blocks of buildings, among which two of them occupying a net floor area of approximately 1,080 sq. m. and the remaining one occupying a gross floor area of approximately 802 sq.m.

Properties leased by the Group in Luxembourg

The Group leases properties in Luxembourg for administrative purpose. As at the Latest Practicable Date, the properties comprised one unit with a total gross floor area of approximately 9.5 sq.m.

As at the Latest Practicable Date and save as disclosed above, to the best knowledge of the Directors after making reasonable enquiries, they were not aware of any defects in the title of any property which is owned or leased by the Group.

REGULATORY COMPLIANCE

Licences and permits

As advised by the Company's legal advisers and confirmed by the Directors, save as disclosed below and in the sub-section headed "Property interests" in this section, the Group had (i) obtained all licences, permits or certificates necessary to conduct its business in all the relevant jurisdictions; (ii) complied in its operations with all relevant laws and regulations of the applicable jurisdictions and the terms and conditions set out in the relevant approvals or licences granted to the Group; and (iii) complied in all material aspects with the environmental laws in the PRC, the United States and Germany and, in respect of the labour laws in the United States and Germany during the Track Record Period.

Social security insurance and housing provident fund contributions

Guangzhou Telefield, Shenzhen Telefield, Huizhou Telefield and Aiko (Shenzhen), which are the Group's primary operating subsidiaries or entities in the PRC (collectively, the "**Group's PRC Entities**"), are required to make social security insurance and housing provident fund contributions for their respective employees in the PRC under the applicable laws and regulations in the PRC. Due to differences in local regulations and inconsistent implementation or interpretation of the relevant laws and regulations by local authorities in the PRC, as well as different levels of acceptance of the social security system by their respective employees, the Group's PRC Entities have not made full contributions in respect of social security insurance, including pension fund, medical insurance (including maternity insurance), unemployment insurance and work-related injury insurance, and the housing provident fund for themselves and their respective employees in the PRC. In particular, under the circumstances where employees were not willing to make corresponding contributions because a number of employees declined the Group's payment of social security insurance and housing provident fund contributions on their behalf as such payment might reduce their direct disposable income. As a result, the Group's PRC Entities were not able to open payment accounts for them at the relevant local social security insurance and housing provident fund administration centres. Thus, the Group had not been able to make its respective portion of contributions to the social security insurance and housing provident fund. During the Track Record Period, the Group made contributions in an aggregate amount of approximately RMB6.8 million to the social security insurance and housing provident fund. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the outstanding amount of social security insurance and housing provident fund contributions amounted to approximately RMB7.9 million, RMB10.8 million, RMB10.1 million and RMB5.0 million, respectively.

As advised by the PRC Legal Advisers, the Group may be ordered to pay such outstanding social security insurance and/or housing provident fund contributions within a prescribed time limit by the relevant PRC authorities. According to《住房公積金管理條例》(the Regulations on Management of Housing Provident Fund), if the Group fails to rectify the non-compliance within the prescribed time limit as ordered by the relevant PRC authorities, a fine in an amount between RMB10,000 and RMB50,000 may be imposed on the Group. In addition, pursuant to《社會保險費征繳暫行條例》(the Interim Regulation on the Collection and Payment of Social Security Insurance Premiums), if the Group fails to rectify the non-compliance within the prescribed time limit as ordered by the relevant PRC authorities, the relevant PRC authorities may impose a belated payment (滯納金) at the daily rate of 0.2% of the overdue social security insurance premiums for any delay in payment from the date when the relevant contributions become due and payable until the actual payment date.

As at 31 August 2010, the Group had made full provisions in an amount of approximately HK$38.5 million in respect of the overdue social security insurance and housing provident fund contributions for all of its eligible staff during the Track Record Period. In addition to the existing provision made by the Group, each of Mr. Cheng, Mrs. Cheng, Century Win and Dragon Fortune has agreed to indemnify the Group against all losses suffered or incurred by the Group as a result of or in connection with the failure of any of the Group's PRC Entities to make contribution in respect of the social security insurance and housing provident fund due to the relevant governmental authorities in the PRC prior to the Listing.

Save as disclosed above, each of the Group's PRC Entities has complied with and will continue to comply with the applicable laws and regulations and the requirement of the local social security insurance bureaus to make relevant contributions in the future.

Anti-dumping regulatory compliance in Germany and in the United States

In Germany, the Group is subject to the Council Regulation (EC) No. 1225/2009 of 30 November 2009, which empowers the European Commission to investigate into any dumping conducts within the European Union. Please refer to the section headed "Regulations – Regulatory requirements in Europe" in this prospectus for further details. As advised by the legal advisers to the Company as to German law, the Group's operations in Germany is not subject to any anti-dumping proceedings or measures in Germany.

In addition, the Group's licensed brand business operation in North America is subject to the anti-dumping regulatory requirements in the United States. Please refer to the section headed "Regulations – Regulatory requirements in the United States" in this prospectus for further details. As advised by the legal advisers to the Company as to US law, the Group's operations in the United States is not subject to any anti-dumping proceedings or measures in the United States.

LEGAL PROCEEDINGS

To the best knowledge of the Directors after making reasonable enquiries, the Directors are not aware of any pending, threatened litigation or other proceedings that may, and are not involved in any litigation or other proceedings, the outcome of which the Directors believe might, cause material adverse effect on the Group's operations or financial position.

CORPORATE GOVERNANCE MATTERS

The Group entered into a facility agreement on 27 January 2010 with a bank in relation to a bank loan of HK$20.0 million to finance its general working capital requirements. Under the facility agreement, the net leverage ratios of consolidated total liabilities after deducting cash to consolidated tangible net worth shall not be higher than 175.0% and consolidated tangible net worth shall not be lower than HK$120.0 million at any time since 31 December 2009. However, due to the provision for social security insurance contribution and the recognition of contingent consideration (generated from the Group's expansion into branded businesses) which amounted to approximately HK$15.0 million and HK$31.3 million, respectively, and the inadvertence of the Group's management team, the Group failed to maintain the required net leverage ratio and consolidated tangible net worth. As a result, the outstanding amount of approximately HK$16.7 million was subject to an early repayment option by the bank. The Group's management team became aware of the technical breach subsequent to the completion of valuation of the acquisitions under the RCA Agreements and the TrekStor Transfer Agreement in May 2010 and remedial actions, including negotiations with the bank and classification of such bank loan as current liability, were taken promptly upon discovery of the technical breach. The bank did not request early repayment of the relevant outstanding bank loan. Subsequent to negotiations with the bank, on 7 July 2010, the bank agreed to waive its rights against the Group for the breach of the covenants covering the period from 27 January 2010 to 31 August 2010 retrospectively. The Directors are of the view that it was only a technical breach and no monetary penalty had been imposed on the Group. The outstanding amount of the bank loan of approximately HK$16.7 million was subsequently fully settled in advance by the Group on 8 September 2010.

On 11 February 2010, the Group engaged RSM Consulting, to execute an agreed set of due diligence review (the "**Review**") on the procedures, systems and controls (including accounting and management systems) adopted by the Group. The scope of work of RSM Consulting included assessing, at the Group level, the general control environment, the risk assessment, central financial related management controls and general disclosure controls. RSM Consulting also performed assessment on the main operating subsidiaries of the Company, including their sales, procurement, inventory, fixed assets, human resources, cash management and general computer control cycles. The objective of the Review is to assess and identify significant weaknesses in relation to the Group's financial procedures, systems and controls. Based on its work, RSM Consulting reported on details of internal control weaknesses of the Group that came to its attention and that RSM Consulting considered to be significant, and its recommendations to improve the Group's internal control systems.

RSM Consulting has made recommendations in relation to breach of loan covenant, which have been implemented by the Group, including but not limited to (i) regular reviewing of the outstanding balances of the Group's banking facilities; (ii) regular reviewing at the Group's level of bank borrowings as compared with its total assets and net assets; (iii) assessing the Group's current financial position as compared with its bank borrowings; and (iv) regular reporting on the findings to the Group's management team. The Group conducts periodic analysis of its historical financial information to review its compliance with the relevant covenants. The Group is in the process of strengthening its budgeting system and conduct monthly covenant compliance forecast to ensure compliance with such covenants in the future. The Directors consider that with the recommendations by RSM Consulting and the budgeting system already in place, the Group would be able to comply with such covenants.

The Directors recognise the importance of incorporating elements of good corporate governance in the management and internal control procedures of the Group so as to achieve effective accountability. The Company has established an audit committee, a remuneration committee and a nomination committee in December 2010. For details of the respective duties and responsibilities of the aforesaid committees, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus. The Company will also appoint China Merchants Securities as its compliance adviser to assist the Company with the compliance matters and issues in relation to the Listing Rules. In addition, the Company will review its internal control system on a quarterly basis and plans to provide annual continuous training to all relevant staff members on the compliance matters and internal control improvements after the Listing. The Directors consider that the aforesaid procedures and controls should be adequate and effective.