You should read this section in conjunction with the Group's audited combined financial statements, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. The combined financial statements have been prepared in accordance with HKFRSs. The following discussion and analysis contains certain forward-looking statements that reflect the Group's current views with respect to future events and financial performance. These statements are based on the assumptions and analysis made by the Company in light of the Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Group's expectations and predictions depends on a number of risks and uncertainties over which the Group does not have control. Please see the section headed "Risk Factors" in this prospectus.

All applicable new and revised HKFRSs, which are generally effective for the Track Record Period and are relevant to the Group, have been applied during the Track Record Period. The Group's financial information has been prepared under the historical cost convention with the exception of certain assets and liabilities, which (where appropriate) were measured at fair value.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Overview

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.

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.

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 section headed "Business – Business model" in this prospectus 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 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 section headed "Business – Business model" in this prospectus 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, 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.

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 sub-section headed "Review of historical operating results" in this section for further details.

BASIS OF PREPARATION OF FINANCIAL INFORMATION

In preparation for the Listing, the Company was incorporated in the Cayman Islands on 18 May 2010.

In anticipation of the Share Offer, the Group has undertaken the Reorganisation, details of which are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus and the paragraph headed "Group reorganisation" in Appendix VI to this prospectus.

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 31 December 2010. Since the Company and the companies now comprising the Group are under common control both before and after the completion of the Reorganisation, the financial information has been prepared based on the principles and procedures of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition, incorporation or establishment, as the case may be. The combined statements of financial position of the Group as at 31 December 2007, 31 December 2008 and 31 December 2009 and 31 August 2010 have been prepared to present the state of affairs of the Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

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

KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL POSITION

The Group's business, results of operations and financial position have been and will continue to be affected by a number of factors, many of which are beyond the Group's control. Significant factors include, among others, the following:

Market demand for consumer electronic products

The Group provides EMS and distribution solutions mainly to international leading consumer electronic products brand name vendors, retailers and distributors. It also has its own branded products distribution of consumer electronic products since 2009. The Group's results of operations are therefore directly affected by its revenue, which primarily depends on the global consumption of consumer electronic products. In general, the Group derives the highest gross profit margin from its EMS non-telecommunications and branded businesses. The demand for the Group's consumer electronic products is also generally dependent on the social and economic conditions of various places in the world, mainly in North America and Europe. Such demand is also dependent on the evolving technologies in the consumer electronic products industry. The higher the speed of technological advancement in the consumer electronic products industry, the faster the existing products will become obsolete and therefore the higher demand for new and more innovative products. The Directors believe that the key to the Group's success is its ability to identify technological and market trends, so as to develop new technologies and designs that match the frequent changes in the demand from end-users.

Product mix and profit margins

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, non-telecommunications products were the Group's major revenue driver, accounting for approximately 41.8%, 58.0%, 64.9% and 70.4% of the Group's total revenue, respectively. During the same period, the Group's overall gross profit margins were approximately 11.7%, 16.1%, 22.8% and 22.1%, respectively.

The Group's operating results are affected by the Group's product mix as gross profit margin varies with different products. During the Track Record Period, the Group had been capturing opportunities to change its product mix to niche products that offered higher gross margins, the majority of which were non-telecommunications products, as well as extending its operations into the distribution of branded products through the recently acquired licensed brand business in North America and own brand business in Europe. In particular, the gross profit margin of the Group's products increases when the technological know-how involved and elements of product differentiation, such as branding, product uniqueness and product features, increase. The Group's profit margins will be adversely affected if the percentage contribution from its EMS non-telecommunications products and branded products decrease, or if their profit margins decrease. The Group's ability to maintain and increase its profit margins depends on the intensity of market competition, market supply and demand, product quality and the costs of raw materials and components. The Directors expect to adjust the Group's product mix constantly in response to changes in demand and pricing for each product.

Production capacity

The Group has been expanding the scale of its production, mainly through the expansion of its production facilities in Guangzhou and Huizhou, the PRC. The Group's capital expenditures on plant, machinery, moulds and tools for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010 were approximately HK$11.0 million, HK$19.0 million, HK$14.2 million and HK$5.4 million, respectively, which mainly comprised the purchase of SMT production lines, automatic insertion machines and bonding machines. The Group's results have been and will continue to be affected by the degree to which its production capacity could meet customers' demand. The Directors expect the capital expenditure increases relating to the expansion of the Group's production capacity will have a positive impact on its results of operations.

As at the Latest Practicable Date, the Group had a total of 17 SMT production lines, 22 automatic insertion machines and 20 bonding machines.

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 month 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 units processed per machine hour and calculated based on the following formula:

Number of machines X Number of units produced per machine 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 processed 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.

Production capacity for the Group's EMS operations can be readily increased or decreased as it depends principally on the availability of machineries, factory floor space and the supply of labour.

Seasonality factors

The Group's revenue has been affected by the seasonal demand for its products. The Group generally receives more orders for delivery in the second half of the year, which the Directors believe was primarily attributable to the traditional peak seasons in sales in the consumer markets in the second half of the year in North America and Europe.

The following table sets forth the seasonal trend of the Group's revenue for the three years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December					
	2007		**2008**		**2009**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
First half	229,392	40.7	358,366	42.2	346,264	42.1
Second half	334,660	59.3	490,126	57.8	475,634	57.9
	564,052	100.0	848,492	100.0	821,898	100.0

Production costs

Raw materials costs represent a significant portion of the Group's total cost of goods sold. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, such costs represented approximately 85.5%, 84.9%, 83.9% and 83.0%, respectively, of the Group's total cost of goods sold. As such, any significant fluctuation in the price of raw materials may have a significant impact on the Group's profitability.

Raw materials and components used in the Group's production mainly include ICs, PCBs, plastic, motor and battery. In recent years, the Group experienced price fluctuations for some raw materials due to various factors including the changes in demand and supply for commodities. Nevertheless, the Group has been able to reduce, to a limited extent, the impact of price fluctuations of raw materials by making bulk purchases and procuring from geographically-diversified sources. The Directors believe that the long-term relationships with its major suppliers enhance the Group's bargaining power and ability to obtain better prices.

Changes in the Group's customer base

The Group's revenue is affected by its customer base. The Group's top five customers 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. The Group's sales is dependent on the orders from the Group's top five customers which are leading international consumer electronic products brand name vendors or distributors. Although the respective share of revenue generated from the Group's top five customers may change in the long-run, the Directors expect the Group to continue to generate a significant portion of its revenue from its current top five customers.

As different customers require different products, changes in the Group's customers profile will continue to affect the relative contribution of the Group's different types of products to the Group's revenue and gross profit. The enhancement of the EMS capacity of the Group in late 2008 facilitated the growth of its business activities and the changes in customer base in the sector.

The development of the licensed brand business in North America and own brand business in Europe also widened the customer base of the Group in the consumer electronic products market, by bringing in several superstore chains, retailers and distributors, two of whom were amongst the Group's top five customers for the eight months ended 31 August 2010.

RECENT DEVELOPMENTS FROM A FINANCIAL PERSPECTIVE

Subsequent sales

During the period from 31 August 2010 to 30 November 2010, the Group generated from external customers an aggregate revenue of approximately HK$125.9 million from its licensed brand business segment and own brand business segment. During the same period, the Group had confirmed external EMS customers' orders amounting to approximately HK$299.6 million, of which approximately HK$216.4 million have been fulfilled as at 30 November 2010. However, it is worth noting that, due to the possibility of changes in the Group's customers' delivery schedules or cancellations and potential delays in delivery, product orders as at any particular date may not be indicative of sales for any succeeding period.

Trends

The trends observed by the Directors during 2010 are as follows:-

(i) the overall sales volume of the Group's products is expected to increase in line with higher demand for the Group's products. In particular, the Directors expect higher percentage growth in revenue generated from the sale of non-telecommunications products compared to that from telecommunications products, which is in line with the Group's business strategies as set out in the section headed "Business – Business strategies" in this prospectus;

(ii) the Group has not entered into long term contracts with all of its customers, and as such, the selling prices for some of the Group's existing products are subject to downward price revisions due to, *inter alia*, price competition from other suppliers, rapid technological changes and short product life cycles. Rapid technological changes and short product life cycles lead to new products being introduced to the market at a faster pace and which may cause selling prices of existing products to drop. Please refer to the section headed "Industry Overview — Competitive landscape" and the section headed "Business — Competition" in this prospectus for further details. As existing products are being phased out or suffer from lower profit margins, the Directors intend to continue to work with the Group's customers to develop new products to sustain profitability; and

(iii) as outlined in the paragraph headed "The Group relies on its suppliers to supply quality raw materials and components" in the section headed "Risk Factors – Risks relating to the business of the Group" in this prospectus, the Directors consider the adequacy of major raw materials and components and the stability in their prices to be crucial to the Group's continued success to deliver satisfactory results of operations. Based on the Group's trading record during the Track Record Period, the Directors believe that the Group has an adequate pipeline of suppliers to ensure the adequacy of raw materials and components supply, whilst the Group's ability to focus on high volume, low mix products will enable it to leverage on its bargaining power on bulk purchases of raw materials and components.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Group's significant accounting policies, which are important for an understanding of the Group's results of operations and financial position, are set forth in detail in note 4 to the Accountants' Report set out in Appendix I to this prospectus. Critical accounting policies are those that are most important to the portrayal of the Group's results of operations and financial position and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. The Group believes the following critical accounting policies involve the most significant estimates and judgments used in the preparation of the Group's financial statements.

(a) Merger accounting for business combination under common control

Pursuant to the sale and purchase agreement dated 31 December 2009, Telefield (BVI) acquired Aiko and its subsidiaries (the "**Aiko Group**") from Vita Health Enterprises Limited (the "**Acquisition**"). Aiko Group was beneficially owned and jointly controlled by the Controlling Shareholders. The Acquisition was completed on 31 December 2009.

The Aiko Group is principally engaged in the trading of electrical appliances, provision of consultancy and agency services.

As Telefield (BVI) and the Aiko Group were both controlled by the Controlling Shareholders before and after the Acquisition, the Acquisition was accounted for as a business combination of entities under common control. The financial statements of the enlarged group have been prepared based on the principles and procedures of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Acquisition had occurred from the date when the combining entities first came under the control of Controlling Shareholders.

The combined income statements and combined statements of comprehensive income and combined statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The combined statements of financial position have been prepared to present the assets and liabilities of the combining entities as if the group structure as at completion date of the Acquisition had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the Controlling Shareholders' perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the Controlling Shareholders' interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(b) Business combination (other than under common control) and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in note 4(aa) to the Accountants' Report set out in Appendix I to this prospectus. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The combined financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– all resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Fixed assets

Land and buildings comprise mainly warehouse and offices. Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of land and building are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and buildings, the attributable revaluation increase remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost or revalued amounts over the estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold land and buildings	4%
Leasehold improvements	Over the lease term or 25%
Plant, machinery, moulds and tools	10% – 25%
Furniture and equipment	20%
Motor vehicles	20% – $33^1/_3$%

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Intangible assets

Trademarks are measured initially at fair value upon business combination and are assessed to have indefinite useful lives. No amortisation should be charged to profit or loss. Useful lives should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for the trademarks. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Licence rights and customer relationship are measured initially at fair value upon business combination and amortised on straight-line basis over their estimated useful lives less impairment losses. Useful lives of licence rights and customer relationship are as follows:

Licence rights	4.8 years
Customer relationship	6.0 years

The useful life of customer relationship of six years was estimated by the Company's management team upon business combination, based on their expected successful rate in retaining the acquirees' customers, and the prevailing general practice in the industry in estimating the expected useful life of customer relationship acquired in business combination.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

RESULTS OF OPERATIONS

The following table sets forth the combined income statements of the Group for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, which are derived from the Group's combined income statements included in the Accountants' Report set out in Appendix I to this prospectus.

	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*
Revenue	564,052	848,492	821,898	496,794	689,541
Cost of goods sold	(497,797)	(712,162)	(634,166)	(380,675)	(537,076)
Gross profit	66,255	136,330	187,732	116,119	152,465
Other income	5,636	3,819	12,371	4,630	5,862
Selling and distribution costs	(12,767)	(17,413)	(39,851)	(19,043)	(46,608)
Administrative expenses	(27,565)	(40,299)	(52,996)	(28,000)	(49,658)
Other operating expenses	(12,752)	(20,530)	(22,507)	(9,406)	(14,619)
Profit from operations	18,807	61,907	84,749	64,300	47,442
Finance costs	(1,969)	(1,844)	(947)	(607)	(2,328)
Gain on disposal of subsidiaries	–	–	1,596	784	–
Share of loss of an associate	(297)	(17)	–	–	–
Profit before tax	16,541	60,046	85,398	64,477	45,114
Income tax expense	(2,188)	(8,792)	(12,731)	(10,913)	(9,155)
Profit for the year/period	14,353	51,254	72,667	53,564	35,959
Attributable to:					
Owners of the Company	14,353	51,258	76,216	53,564	47,179
Non-controlling interests	–	(4)	(3,549)	–	(11,220)
	14,353	51,254	72,667	53,564	35,959
Earnings per share					
Basic (HK cents)	3.59	12.81	19.05	13.39	11.79

DESCRIPTION OF SELECTED LINE ITEMS IN THE COMBINED INCOME STATEMENTS

Revenue

Revenue represents the sales value of goods supplied to the Group's customers, excluding value-added tax and after deduction of any trade discounts and returns. The Group generates revenue through its three business segments, namely, EMS, licensed brand business in North America and own brand business in Europe, from the manufacture and/or sale of telecommunications and non-telecommunications products. 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

	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*	*%*
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 Group's total revenue was approximately HK$564.1 million, HK$848.5 million and HK$821.9 million for the three years ended 31 December 2007, 2008 and 2009, respectively, representing a CAGR of approximately 20.7%. The Group's total revenue for the eight months ended 31 August 2010 was approximately HK$689.5 million, representing an increase of approximately 38.8%, or approximately HK$192.7 million, from approximately HK$496.8 million for the eight months ended 31 August 2009.

In general, despite the overall adverse impact of the 2008 financial turmoil on the EMS industry, the Group managed to maintain a similar revenue level in 2009 as that of 2008 mainly due to the additional revenue contribution from the licensed brand business in North America and the own brand business in Germany. In particular, the growth in the sale of non-telecommunications products had been the major contributor to the overall growth in the Group's revenue during the Track Record Period.

Telecommunications products of the Group's EMS and branded businesses segments mainly include corded/cordless residential telephones and SMB phone systems. The contribution of telecommunications products to the Group's total revenue had decreased gradually during the Track Record Period, accounted for approximately 58.2%, 42.0%, 35.1% and 29.6% for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively.

The decrease in the sale of telecommunications products was mainly attributable to the exit of one of the Group's major EMS customers, an internationally renowned distributor to whom the Group supplied residential telephones and SMB phone systems, including SMB phone systems under the "RCA" brand, from the North American market in December 2008. Seeking to prevent an irrecoverable loss of revenue source as well as to vertically integrate, the Group concluded the RCA Agreements in February 2009, under which TFNA(US) was granted an exclusive licence to distribute SMB phone systems in North America under the "RCA" brand, details of which are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus. As such, the Group was able to partially offset the decrease in revenue through revenue generated by TFNA (US), which now constitutes the Group's licensed brand business segment. The corresponding licensed brand telecommunications products revenue accounted for approximately 14.3% and 15.1% of the Group's total revenue for the year ended 31 December 2009 and the eight months ended 31 August 2010, respectively. By taking the initiative to integrate its business vertically, the Group prevented the loss of a sizeable market for one of its major products.

Non-telecommunications products of the Group's EMS segment mainly include appliances and appliances control products and multimedia products; whilst non-telecommunications products of the Group's own brand business segment mainly include portable storage devices and multimedia products. Non-telecommunications products contributed approximately 41.8%, 58.0%, 64.9% and 70.4% 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; whilst the revenue generated from their sales increased from approximately HK$235.7 million for the year ended 31 December 2007 to approximately HK$533.4 million for the year ended 31 December 2009, representing a CAGR of approximately 50.4%.

The growth in the revenue generated from non-telecommunications products was mainly attributable to the following factors:

(i) the initiation of revenue generation from the own brand business segment under the "TrekStor" brand upon the acquisition of the Group's own brand business in Germany in November 2009, details of which are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus. Revenue generated from this segment accounted for approximately 2.8% and 16.9% of the Group's total revenue for the year ended 31 December 2009 and the eight months ended 31 August 2010, respectively; and

(ii) an increase in the sale of one of the Group's EMS appliances and appliances control products, automatic aerosol dispensing systems, revenue generated from which increased from approximately HK$7.7 million for the year ended 31 December 2007 to approximately HK$300.9 million for the year ended 31 December 2009, representing a CAGR of approximately 525.1%, whilst accounting for approximately 1.4%, 25.5%, 36.6% and 34.1% of the Group's total revenue, respectively, for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010.

By taking these initiatives, the Group enhanced its distribution network and broadened its source of revenue.

The Group's sales were derived from customers in different geographical markets. The following table sets forth a breakdown of the Group's revenue by sales region during 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*	*%*
Americas	196,502	34.8	390,418	46.0	319,136	38.8	194,176	39.1	217,587	31.6
Europe	90,069	16.0	210,971	24.9	267,687	32.6	162,302	32.7	323,048	46.8
Asia-Pacific region and Japan	277,481	49.2	247,103	29.1	235,075	28.6	140,316	28.2	148,906	21.6
	564,052	100.0	848,492	100.0	821,898	100.0	496,794	100.0	689,541	100.0

For the two years ended 31 December 2007 and 2008, the Group's customers were mainly located in the Americas, the Asia-Pacific region and Japan, and their aggregate revenue accounted for approximately 84.0% and 75.1%, respectively, of the Group's total revenue. For the year ended 31 December 2009, approximately 38.8%, 32.6% and 28.6% of the Group's revenue was derived from the Americas, Europe, the Asia-Pacific region and Japan, respectively. The shift was primarily attributable to the relocation of one of the Group's major customers from the Americas to Europe, coupled with the expansion of the Group's European distribution network via TrekStor (Germany), whilst the revenue derived from the Asia-Pacific region and Japan decreased along with the decreasing number of product orders, mainly due to the cessation of the business of one of the Group's major customers in the region. In the first eight months of 2010, the geographical distribution of the Group's customers further shifted towards the European market with the growing contribution from TrekStor (Germany).

Cost of goods sold

The Group's cost of goods sold primarily consist of raw materials costs, direct labour costs, rent and utilities, and depreciation. The following table sets forth a breakdown of the Group's cost of goods sold as a percentage of total costs of goods sold 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*	*%*
Raw materials costs	425,793	85.5	604,475	84.9	532,155	83.9	320,774	84.3	445,688	83.0
Direct labour costs	40,493	8.1	60,380	8.5	56,267	8.9	32,994	8.7	53,202	9.9
Rent and utilities	9,188	1.9	11,541	1.6	13,178	2.1	8,891	2.3	9,953	1.8
Depreciation	7,723	1.6	10,571	1.5	9,812	1.5	6,214	1.6	7,299	1.4
Others	14,600	2.9	25,195	3.5	22,754	3.6	11,802	3.1	20,934	3.9
Total	497,797	100.0	712,162	100.0	634,166	100.0	380,675	100.0	537,076	100.0

Raw materials costs constituted a majority of the Group's costs of goods sold for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010. Raw materials and components used in the Group's production processes mainly comprised ICs, PCBs, plastic, motor and battery, which in aggregate accounted for approximately 42.1% of the Group's total cost of goods sold for the year ended 31 December 2009.

The Group's depreciation expenses constituted a comparatively small proportion of its cost of goods sold. The Directors believe that the Group's sensible design of production facilities and cautious procurement of necessary equipment have enabled it to operate efficiently with a relatively small asset base.

Gross profit and gross profit margin

The Group's gross profit, which represents the Group's revenue for the Track Record Period less cost of goods sold, was approximately HK$66.3 million, HK$136.3 million, HK$187.7 million and HK$152.5 million for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. During the same period, the Group's gross profit margin was approximately 11.7%, 16.1%, 22.8% and 22.1%, respectively.

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

	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*	*%*
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 business 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**

The table above demonstrated an uptrend in the Group's gross profit and gross profit margin, with gross profit margin increasing across all business segments from 2007 to 2009, whilst remaining stable during the eight months ended 31 August 2010. This was primarily attributable to:

(i) the Group's strategic vertical expansion into the branded businesses in 2009 that now constitutes its branded business segments. In particular, the sale and distribution of branded SMB phone systems under the "RCA" brand in North America under the Group's licensed brand business segment delivered higher gross profit margin than the Group's EMS segment;

(ii) whilst the Group was presented with opportunities to mass produce new products having built up its reputation in the EMS industry by offering high quality products, the high flexibility of the Group's production facilities enabled the Group to adjust its production to alternate products in a timely manner to capture such opportunities, details of which are outlined in the paragraph headed "Production facilities" under the section headed "Business – Production" in this prospectus. In particular, during the Track Record Period, after demonstrating high product quality during a trial production period of approximately nine months, the Group secured orders for the mass production of automatic aerosol dispensing systems. This gave rise to economies of scale in the form of increased production efficiency through continual mass production of similar products and enhanced bargaining power over suppliers of raw materials and components as a result of frequent bulk purchases, as well as higher bargaining power over the relevant customer having demonstrated its ability to consistently produce high-quality products, resulting in higher gross profit margin; and

(iii) adequate sums being invested in production equipment and research and development enhanced the level of automation in production which further improves production efficiency.

Other income

Other income amounted to approximately HK$5.6 million, HK$3.8 million, 12.4 million and HK$5.9 million for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The Group's other income mainly comprised proceeds from sales of scrapped materials, gains on derivative instruments and discount on acquisitions. Other income remained fairly stable throughout the Track Record Period except that there was a discount on acquisitions arising on business combinations of approximately HK$9.0 million for the year ended 31 December 2009, of which approximately HK$2.4 million was accounted for in the eight months ended 31 August 2009.

Selling and distribution expenses

The Group's selling and distribution expenses mainly include staff costs, promotion and after-sales services expenses, freight and transportation costs, amortisation of intangible assets and commission. The table below sets forth the Group's selling and distribution expenses 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*
Staff costs	5,684	9,010	16,187	6,991	16,596
Promotion and after-sales services expenses	131	135	6,695	3,092	10,462
Freight and transportation costs	4,081	5,770	6,481	3,685	6,372
Amortisation of intangible assets	–	–	5,564	3,278	4,729
Commission	1,407	1,305	2,434	570	5,586
Others	1,464	1,193	2,490	1,427	2,863
	12,767	17,413	39,851	19,043	46,608

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, total selling and distribution expenses accounted for approximately 2.3%, 2.1%, 4.8% and 6.8%, respectively, of the Group's revenue. The increase in selling and distribution expenses as a percentage of the Group's revenue since the year ended 31 December 2009 was mainly attributable to the increases in staff costs, promotion and after-sales services expenses, amortisation of intangible assets and commission expenses, primarily as a result of the Group's expansion into the branded businesses.

Administrative expenses

The Group's administrative expenses mainly include staff costs, office expenses and rental, travelling and entertainment expenses and legal and professional fees. The table below sets forth the Group's administrative expenses 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*
Staff costs	15,018	20,293	28,283	15,216	27,137
Office expenses and rental	3,642	4,513	5,482	3,227	6,380
Travelling and entertainment expenses	1,766	2,067	3,587	1,915	4,412
Legal and professional fees	3,151	4,846	5,135	2,019	3,271
Insurance	538	422	1,332	559	1,188
Depreciation	1,266	1,274	1,402	835	1,115
Exchange difference	516	2,777	998	2,033	3,498
Others	1,668	4,107	6,777	2,196	2,657
	27,565	40,299	52,996	28,000	49,658

Administrative expenses represented approximately 4.9%, 4.7%, 6.4% and 7.2% of the Group's revenue for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The increase in the Group's administrative expenses as a percentage of its revenue since the year ended 31 December 2009 was primarily attributable to the increases in staff costs, exchange difference, office expenses and rental and travelling and entertainment expenses in relation to the Group's expansion into the branded businesses.

Other operating expenses

Other operating expenses mainly comprised research and development expenses. The Group places a strong focus on research and development. As a result, the Group's research and development expenses as a percentage of revenue increased gradually during the Track Record Period, represented approximately 1.9%, 2.0%, 2.3% and 1.7% of its revenue for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively.

Finance costs

The Group's finance costs mainly comprise interest payments for the Group's bank loans, import/export loans and factoring loans.

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group's finance costs were approximately HK$2.0 million, HK$1.8 million, HK$0.9 million and HK$2.3 million, represented approximately 0.3%, 0.2%, 0.1% and 0.3% of its revenue, respectively.

Income tax expense

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, PRC, the US and Germany. The Group had no tax payable in other jurisdictions during the Track Record Period.

The Group's effective income tax rates for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010 were approximately 13.2%, 14.6%, 14.9% and 20.3%, respectively. The increase in the Group's effective tax rates during the Track Record Period was primarily attributable to the higher statutory tax rates imposed in foreign jurisdictions on the Group's overseas subsidiaries, which commenced operations in 2009 pursuant to a series of business combinations, details of which are outlined in the section headed "History, Reorganisation and Group Structure" in this prospectus.

Hong Kong profits tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the combined statement of comprehensive income.

The applicable Hong Kong profits tax rates for the Group's subsidiaries incorporated in Hong Kong was 17.5% for the year ended 31 December 2007 and 16.5% for the two years ended 31 December 2008 and 2009 and the eight months ended 31 August 2010, respectively.

PRC Enterprise Income tax

For the year ended 31 December 2007, members of the Group in the PRC were subject to《中華人民共和國外商投資企業和外國企業所得稅法》(the PRC Enterprise Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises) (the "**Old PRC Tax Law**"), which was abolished on 1 January 2008. For the two years ended 31 December 2008 and 2009 and the eight months ended 31 August 2010, they were subject to the PRC Enterprise Income Tax Law.

The applicable PRC statutory enterprise income tax rate for wholly foreign-owned enterprises was 33%, comprising a state tax rate of 30% and a local tax rate of 3% for the year ended 31 December 2007 and has been changed to a unified tax rate of 25% for all types of enterprises with effect from 1 January 2008.

Aiko (Shenzhen) was subject to an income tax rate of 15% for the year ended 31 December 2007 pursuant to the Old PRC Tax Law, and was subject to an enterprise income tax rate of 18%, 20% and 22% for the two years ended 31 December 2008 and 31 December 2009 and the eight months ended 31 August 2010, respectively, pursuant to《國務院關於實施企業所得稅過渡優惠政策的通知》(the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax).

Guangzhou Telefield was a production-oriented sino-foreign cooperative joint venture located in the coastal economy open zone of Guangzhou. Pursuant to the Old PRC Tax Law and relevant rules, Guangzhou Telefield was eligible for a preferential income tax rate of 27%. Furthermore, Guangzhou Telefield was entitled to a reduction of enterprise income tax by 50% pursuant to Article 75 of《中華人民共和國外商投資企業和外國企業所得稅法實施細則》(the Detailed Rules for the Implementation of the PRC Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises) and was waived from payment of local income tax pursuant to Article 5 of《廣東省關於外商投資企業免徵、減徵地方所得稅的規定》(the Provisions of Guangdong Province on the Reduction and Exemption of Local Income Tax on Foreign Invested Enterprises) for the year ended 31 December 2007.

Save as disclosed above, other companies located in the PRC have not been granted any preferential tax treatment and were subject to tax at their statutory tax rates of 33% for the year ended 31 December 2007, and 25% for the two years ended 31 December 2008 and 2009 and the eight months ended 31 August 2010.

Overseas income tax

The Company's indirect wholly-owned subsidiary, TFNA (US), is incorporated in the US and is subject to federal and state income taxes on its worldwide income. The US has graduated federal corporate tax rates between 15% and 35%. State tax rates vary based on the location of the corporation's activities. TFNA (US)'s net state tax rate is approximately 5%. There is no tax treaty between the US and Hong Kong. Dividends paid by the TFNA (US) will be subject to a withholding rate of 30%.

TrekStor (Germany) is subject to German Corporate Income Tax ("**GCIT**"), levied at a rate of 15%, as well as a Solidarity Surcharge levied at a rate of 5.5% of the GCIT. The combined tax rate of GCIT and Solidarity Surcharge is 15.825%. In addition, TrekStor (Germany) is also subject to a municipal trade tax ("**MTT**") imposed by the Lorsch municipality, and the applicable MTT rate is 11.55%. Dividends payments are subject to withholding tax at a rate of 25% plus Solidarity Surcharge, resulting in an effective rate of 26.375%. In case the withholding tax according to a double tax treaty is lower, the German withholding tax can be determined according to the reduced rate if a respective certificate of the Federal Tax Office is granted in advance. Licence fee payments are subject to similar withholding tax requirement and the applicable tax rate is 15.825% unless a certificate of exemption is obtained.

During the Track Record Period, the Group had not been subjected to any corporate income tax in the Cayman Islands, the BVI and Luxembourg.

REVIEW OF HISTORICAL OPERATING RESULTS

The eight months ended 31 August 2010 compared to the eight months ended 31 August 2009

Revenue

The Group's revenue increased by approximately 38.8%, or approximately HK$192.7 million, from approximately HK$496.8 million for the eight months ended 31 August 2009 to approximately HK$689.5 million for the eight months ended 31 August 2010, primarily as a result of the full operation of its branded businesses which commenced operations in 2009, from which the Group generated revenue amounted to approximately HK$220.9 million for the eight months ended 31 August 2010, as compared to approximately HK$66.5 million for the eight months ended 31 August 2009.

- *Telecommunications products*

  Revenue from the sale of telecommunications products increased by approximately 21.2%, from approximately HK$168.4 million for the eight months ended 31 August 2009 to approximately HK$204.2 million for the eight months ended 31 August 2010, primarily due to the inclusion of the full-period results of the Group's licensed brand business in North America, which did not commence the distribution of SMB phone systems under the "RCA" brand until March 2009, details of which are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus. The Group's licensed brand business in North America contributed to an increase in revenue of approximately HK$38.0 million, the effect of which was partially offset by a decrease in the EMS revenue from the sale of corded and cordless residential telephones by approximately HK$2.3 million, from approximately HK$101.9 million for the eight months ended 31 August 2009 to approximately HK$99.6 million for the eight months ended 31 August 2010, mainly due to a decrease in orders for the products.

- *Non-telecommunications products*

  Revenue from the sale of non-telecommunications products increased by approximately 47.8% from approximately HK$328.4 million for the eight months ended 31 August 2009 to approximately HK$485.3 million for the eight months ended 31 August 2010. The increase was mainly attributable to the inclusion of the results of the Group's own brand business in Europe, generating revenue from the assembly and/or distribution of portable storage devices and/or multimedia products under the "TrekStor" brand since November 2009, details of which are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus.

Cost of goods sold

The Group's cost of goods sold increased by approximately 41.1%, from approximately HK$380.7 million for the eight months ended 31 August 2009 to approximately HK$537.1 million for the eight months ended 31 August 2010. The increase was mainly due to an increase in the volume of raw materials and components purchased, primarily attributable to an increase in the sale of licensed brand telecommunications products, and EMS non-telecommunications products, the effect of which was partially offset by a decrease in the sale and the corresponding decrease in the costs of goods sold of EMS telecommunications products.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 31.3%, from approximately HK$116.1 million for the eight months ended 31 August 2009 to approximately HK$152.5 million for the eight months ended 31 August 2010, primarily as a result of the gross profit contribution from the sale of the Group's licensed brand telecommunications products and own brand non-telecommunications products. Whilst the former commenced in March 2009, the latter did not until November 2009. Gross profit margin decreased from approximately 23.4% for the eight months ended 31 August 2009 to approximately 22.1% for the eight months ended 31 August 2010, mainly due to the inclusion of the operating results of the Group's own brand non-telecommunications products segment, which commenced in November 2009. Whilst it had embarked on the ongoing process of re-establishing business relationship with its old customers and resumed new product development since its establishment in November 2009, it had been operating at under capacity. As a result, despite a gradual increase in its production level and revenue, its gross margin was lower than the Group's other business segments for the eight months ended 31 August 2010.

Other income

The Group's other income increased by approximately HK$1.2 million, or approximately 26.6%, from approximately HK$4.6 million for the eight months ended 31 August 2009 to approximately HK$5.8 million for the eight months ended 31 August 2010, primarily as a result of the increase in gains on derivative instruments.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 144.8% from approximately HK$19.0 million for the eight months ended 31 August 2009 to approximately HK$46.6 million for the eight months ended 31 August 2010. The increase was primarily attributable to the inclusion of the results of operations of the the Group's licensed brand business in the US and own brand business in Germany in the current period, resulting in additional staff costs, promotion expenses and commission expenses incurred.

Administrative expenses

The Group's administrative expenses increased by approximately HK$21.7 million, or approximately 77.3%, from approximately HK$28.0 million for the eight months ended 31 August 2009 to approximately HK$49.7 million for the eight months ended 31 August 2010. The increase was primarily attributable to increases in staff costs, office rental and expenses and travelling and entertainment expenses incurred by the newly established subsidiaries in the US and Germany.

Other operating expenses

The Group's other operating expenses increased by approximately 55.4% from approximately HK$9.4 million for the eight months ended 31 August 2009 to approximately HK$14.6 million for the eight months ended 31 August 2010. The increase was mainly attributable to an increase in research and development expenses incurred for the enhancement of the Group's competitive strengths in production efficiency and product innovation.

Finance costs

The Group's finance costs increased by approximately HK$1.7 million, or approximately 283.5%, from approximately HK$0.6 million for the eight months ended 31 August 2009 to approximately HK$2.3 million for the eight months ended 31 August 2010. The increase was primarily attributable to the Group obtaining additional lines of credit to finance the extended own brand business operations in Europe.

Income tax expense

The Group's income tax expense decreased by approximately HK$1.7 million, or approximately 16.1%, from approximately HK$10.9 million for the eight months ended 31 August 2009 to approximately HK$9.2 million for the eight months ended 31 August 2010. The decrease was primarily the result of the decrease in profit before tax by approximately 30.0% for the eight months ended 31 August 2010.

Profit for the period attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 11.9% from approximately HK$53.6 million for the eight months ended 31 August 2009 to approximately HK$47.2 million for the eight months ended 31 August 2010. The Group's net profit margin attributable to owners of the Company decreased from approximately 10.8% for the eight months ended 31 August 2009 to approximately 6.8% for the eight months ended 31 August 2010. The decrease was mainly attributable to (i) the significant increases in selling and distribution expenses and administrative expenses, mainly attributable to the recently established branded businesses; and (ii) whilst TrekStor (Germany) had embarked on the ongoing process of re-establishing business relationship with its old customers and resumed new product development since its establishment in November 2009, it had continued to incur overhead costs such as staff costs and rent. Despite the gradual growth in revenue, its income fell short of its operating expenditure as it took time to resume new product development to introduce new products to the market. As a result, during the eight months ended 31 August 2010, the segment recorded a net loss of approximately HK$22.3 million.

Loss for the period attributable to non-controlling interests

Loss for the period attributable to non-controlling interests, increased from nil for the eight months ended 31 August 2009 to approximately HK$11.2 million for the eight months ended 31 August 2010. The increase was primarily attributable to TrekStor (Germany), an indirectly owned subsidiary of the Company in Germany established in November 2009, details of which are set out in the paragraph headed "TrekStor (Germany)" under the section headed "History, Reorganisation and Group Structure – Major operating subsidiaries" in this prospectus.

The year ended 31 December 2009 compared to the year ended 31 December 2008

Revenue

The Group's revenue decreased by approximately 3.1%, from approximately HK$848.5 million for the year ended 31 December 2008 to approximately HK$821.9 million for the year ended 31 December 2009, primarily as a result of the global economic downturn which began in late 2008. Despite the overall adverse impact of the financial turmoil on the EMS industry, the Group managed to maintain a similar revenue level in 2009 as that of 2008 mainly due to the additional revenue contribution from its branded businesses, which commenced operations during the year ended 31 December 2009.

- *Telecommunications products*

  Revenue from the sale of telecommunications products decreased by approximately 19.1%, from approximately HK$356.5 million for the year ended 31 December 2008 to approximately HK$288.5 million for the year ended 31 December 2009, primarily due to exit of the Group's largest EMS customer from the North American market in late 2008, to which the Group sold residential telephones and SMB phone systems amounted to approximately HK$216.8 million for the year ended 31 December 2008. The decrease was partially offset by the Group's expansion into the licensed brand business segment, which generated revenue amounted to approximately HK$117.4 million; and an increase in the sale of corded and cordless residential telephones by approximately HK$19.3 million.

- *Non-telecommunications products*

  Revenue from the sale of non-telecommunications products increased by approximately 8.4% from approximately HK$492.0 million for the year ended 31 December 2008 to approximately HK$533.4 million for the year ended 31 December 2009. The increase was mainly attributable to the increase in the sale of EMS appliances and appliances control products by approximately HK$52.5 million and the commencement of the Group's own brand business operations in Europe in November 2009, which generated revenue amounted to approximately HK$22.7 million. The increase was partially offset by a decrease in the sale of the Group's EMS multimedia products amounted to approximately HK$54.8 million.

Cost of goods sold

The Group's cost of goods sold decreased by approximately 11.0%, from approximately HK$712.2 million for the year ended 31 December 2008 to approximately HK$634.2 million for the year ended 31 December 2009. The decrease reflected the benefits of economies of scale, in terms of production efficiency through the continuation of automation process; and the cost savings achieved by procuring raw materials and components in bulk, which enhanced the Group's bargaining power over its suppliers.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 37.7%, from approximately HK$136.3 million for the year ended 31 December 2008 to approximately HK$187.7 million for the year ended 31 December 2009. Gross profit margins increased from approximately 16.1% for the year ended 31 December 2008 to approximately 22.8% for the year ended 31 December 2009, primarily due to the changes in product mix, which increased the gross margin contribution from the Group's branded businesses; and the improvements of the Group's production efficiency and bargaining power over its suppliers.

Other income

The Group's other income increased by approximately HK$8.6 million, or approximately 223.9%, from approximately HK$3.8 million for the year ended 31 December 2008 to approximately HK$12.4 million for the year ended 31 December 2009, primarily as a result of the discount on acquisitions arising on business combinations during the year ended 31 December 2009 in the US and Germany of approximately HK$9.0 million.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately HK$22.5 million, or approximately 128.9%, from approximately HK$17.4 million for the year ended 31 December 2008 to approximately HK$39.9 million for the year ended 31 December 2009, which was primarily attributable to its strategy to diversify into the branded businesses during the year. Pursuant to this strategic downstream expansion, the Group incurred additional staff costs and expenses in promoting its new branded businesses and providing after-sales services. The Group also incurred additional amortisation expenses on its licence rights and customer relationship, which was recognised in business combinations upon the set up of its branded products distribution networks in the US and Germany.

Administrative expenses

The Group's administrative expenses increased by approximately HK$12.7 million, or approximately 31.5%, from approximately HK$40.3 million for the year ended 31 December 2008 to approximately HK$53.0 million for the year ended 31 December 2009. The increase was primarily attributable to the additional operating cost incurred by the newly established subsidiaries in the US and Germany, expenditure in upgrading computer operating system, improving management information system and professional fees incurred in investment evaluation.

Other operating expenses

The Group's other operating expenses increased by approximately 9.6% from approximately HK$20.5 million for the year ended 31 December 2008 to approximately HK$22.5 million for the year ended 31 December 2009. The increase was mainly caused by an increase in research and development expenses incurred in product development for the Group's branded products operations as well as maintaining the Group's competitive strengths in the EMS market.

Finance costs

The Group's finance costs decreased by approximately HK$0.9 million, or approximately 48.6%, from approximately HK$1.8 million for the year ended 31 December 2008 to approximately HK$0.9 million for the year ended 31 December 2009 as a result of the reduced level of interest-bearing bank borrowings, and a decrease in bank borrowing rate.

Income tax expense

The Group's income tax expense increased by approximately HK$3.9 million, or approximately 44.8% from approximately HK$8.8 million for the year ended 31 December 2008 to approximately HK$12.7 million for the year ended 31 December 2009, primarily as a result of the higher profit before tax and higher tax rate applicable to overseas subsidiaries for the year ended 31 December 2009.

Profit for the year attributable to owners of the Company

Profit attributable to owners of the Company increased by approximately 48.7% from approximately HK$51.3 million in 2008 to approximately HK$76.2 million in 2009. The Group's net profit margin attributable to owners of the Company increased from approximately 6.0% in 2008 to approximately 9.3% in 2009, which was mainly caused by the increase in profit margin.

Loss for the year attributable to non-controlling interests

Loss attributable to non-controlling interests increased from approximately HK$4,000 in 2008 to approximately HK$3.5 million in 2009. The increase was mainly attributable to the loss incurred by TrekStor (Germany), which was established in November 2009, details of which are set out in the paragraph headed "TrekStor (Germany)" under the section headed "History, Reorganisation and Group Structure – Major operating subsidiaries" in this prospectus.

The year ended 31 December 2008 compared to the year ended 31 December 2007

Revenue

The Group's revenue increased by approximately 50.4%, from approximately HK$564.1 million for the year ended 31 December 2007 to approximately HK$848.5 million for the year ended 31 December 2008 despite the global economic downturn, primarily due to the change in the Group's product mix.

- *Telecommunications products*

  Revenue from the sale of telecommunications products increased modestly by approximately 8.6%, from approximately HK$328.3 million for the year ended 31 December 2007 to approximately HK$356.5 million for the year ended 31 December 2008.

- *Non-telecommunications products*

  Revenue from the sale of non-telecommunications products increased by approximately 108.7%, from approximately HK$235.7 million for the year ended 31 December 2007 to approximately HK$492.0 million for the year ended 31 December 2008. The increase was mainly attributable to the increase in the sale of EMS appliances and appliances control products by approximately HK$219.9 million.

Cost of goods sold

The Group's cost of goods sold increased by approximately 43.1%, from approximately HK$497.8 million for the year ended 31 December 2007 to approximately HK$712.2 million for the year ended 31 December 2008, primarily as a result of increased quantities produced to meet increased sales demand.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 105.8%, from approximately HK$66.3 million for the year ended 31 December 2007 to approximately HK$136.3 million for the year ended 31 December 2008, due to an increase in the sales volume and the improvement in its gross profit margin. Gross profit margin increased from approximately 11.7% for the year ended 31 December 2007 to approximately 16.1% for the year ended 31 December 2008, primarily due to a change in the Group's product mix, with a substantial increase in the gross profit contribution from appliances and appliances control products, cost reduction from economies of scale, the implementation of the automation process and the downturn of raw materials markets due to the financial turmoil in late 2008.

Other income

The Group's other income decreased by approximately HK$1.8 million, or approximately 32.2%, from approximately HK$5.6 million for the year ended 31 December 2007 to approximately HK$3.8 million for the year ended 31 December 2008, primarily as a result of the inclusion of a non-recurring gain from the reversal of temporary receipts for the year ended 31 December 2007.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 36.4% from approximately HK$12.8 million for the year ended 31 December 2007 to approximately HK$17.4 million for the year ended 31 December 2008, which was primarily attributable to the increase in staff costs due to an increase in the number of staff.

Administrative expenses

The Group's administrative expenses increased by approximately HK$12.7 million, or approximately 46.2%, from approximately HK$27.6 million for the year ended 31 December 2007 to approximately HK$40.3 million for the year ended 31 December 2008. The increase was primarily attributable to an increase in staff costs as the number of staff increased as a result of the business expansion during the year ended 31 December 2008, whilst the Group also distributed additional bonus payments to its staff in recognition of their contribution to the substantial improvement in the Group's results of operations.

Other operating expenses

The Group's other operating expenses increased by approximately 61.0% from approximately HK$12.8 million for the year ended 31 December 2007 to approximately HK$20.5 million for the year ended 31 December 2008. The increase was primarily attributable to an increase in research and development expenses, as a result of an increase in the number of research engineers and an increase in expenditure incurred in the development of non-telecommunications products.

Finance costs

The Group's finance costs decreased by approximately HK$0.2 million, or approximately 6.3%, from approximately HK$2.0 million for the year ended 31 December 2007 to approximately HK$1.8 million for the year ended 31 December 2008 primarily due to the decrease in interest-bearing borrowings.

Income tax expense

The Group's income tax expense increased by approximately HK$6.6 million, or approximately 301.8%, from approximately HK$2.2 million for the year ended 31 December 2007 to approximately HK$8.8 million for the year ended 31 December 2008, primarily as a result of the significant increase in profit before tax for the year ended 31 December 2008.

Profit for the year attributable to owners of the Company

Profit attributable to owners of the Company increased by approximately 257.1% from approximately HK$14.4 million in 2007 to approximately HK$51.3 million in 2008. The Group's net profit margin attributable to owners of the Company increased from approximately 2.5% in 2007 to approximately 6.0% in 2008, which was mainly caused by the increase in profit margin and the increase in business volume.

Loss attributable to non-controlling interests

Loss attributable to non-controlling interests increased from nil in 2007 to approximately HK$4,000 in 2008, primarily represented the loss attributable to non-controlling interests of Telefield Technologies Limited, an indirectly owned subsidiary subsequently disposed by the Group on 31 December 2009.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Group had financed its working capital, capital expenditure and other capital requirements primarily through cash generated from its operations, and cash at hand, while raising the remainder of its requirements primarily through short-term and long-term bank borrowings. The Group's principal uses of cash have been, and are expected to continue to be, operating costs and capital expenditures.

Liquidity

The following table sets forth selected cash flow data from the Group's consolidated cash flow statements 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*
Net cash generated from operating activities	22,313	100,305	99,300	98,727	31,504
Net cash used in investing activities	(14,363)	(25,081)	(52,129)	(32,825)	(17,196)
Net cash generated from/(used in) financing activities	(18,606)	(14,612)	(55,113)	(37,775)	23,471
Net (decrease)/increase in cash and cash equivalents	(10,656)	60,612	(7,942)	28,127	37,779

Net Cash Generated From Operating Activities

The Group derives its cash inflow from operating activities principally from the receipts from the sale of its products. The Group's cash outflow from operations primarily reflects payments for the purchase of raw materials and components and staff costs.

Net cash generated from operating activities of approximately HK$31.5 million for the eight months ended 31 August 2010 comprised operating profit before changes in working capital of approximately HK$71.0 million, adjusted for net working capital outflow, taxation and finance cost of approximately HK$33.7 million, HK$3.5 million and HK$2.3 million, respectively. The net working capital outflow was primarily attributable to the increase in inventories of approximately HK$42.3 million, which was mainly due to a gross increase before provision in the level of raw materials, work-in-progress and finished goods (including goods in transit) by approximately HK$19.1 million, HK$18.6 million and HK$4.6 million, respectively, as a result of the seasonality in the Group's operations, which gave rise to a relatively low level of sales during the period and an increase in orders for the Group's products that were due to be produced and delivered mainly in the two months subsequent to August 2010. Please refer to the paragraph headed "The Group's revenue is subject to seasonal fluctuations" under the section headed "Risk Factors – Risks relating to the business of the Group" in this prospectus for further details of the relevant risks.

Net cash generated from operating activities of approximately HK$99.3 million for the year ended 31 December 2009 comprised operating profit before changes in working capital of approximately HK$106.3 million, adjusted for net working capital inflow, income tax paid and finance costs paid of approximately HK$6.3 million, HK$12.4 million and HK$0.9 million, respectively. The net working capital inflow was primarily attributable to the increase in trade payables and accruals and other payables amounted to approximately HK$4.2 million and HK$22.3 million, respectively, which was partially offset by the decrease in product warranty provision and payment of royalty amounted to approximately HK$16.7 million and HK$4.8 million, respectively.

Net cash generated from operating activities of approximately HK$100.3 million for the year ended 31 December 2008 comprised operating profit before changes in working capital of approximately HK$90.7 million, adjusted for net working capital inflow, income tax paid and finance costs paid of approximately HK$13.5 million, HK$2.1 million and HK$1.8 million, respectively. The net working capital inflow was primarily attributable to the increase in accruals and other payables of approximately HK$25.2 million and the increase in trade payables of approximately HK$9.4 million.

Net cash generated from operating activities of approximately HK$22.3 million for the year ended 31 December 2007 comprised operating profit before changes in working capital of approximately HK$34.6 million, adjusted for net working capital outflow, income tax paid and finance costs paid of approximately HK$8.0 million, HK$2.3 million and HK$2.0 million, respectively. The net working capital outflow was primarily attributable to the increase in trade receivables of approximately HK$33.1 million, which was partially offset by the increase in trade payables of approximately HK$19.8 million.

Cash Flows From Investing Activities

The Group derives its cash from investing activities primarily from proceeds from disposals of fixed assets and receipt of interest income. The Group's cash outflow from investing activities primarily reflects considerations paid for business combinations and the acquisition of manufacturing and general office equipment in connection with production equipment such as SMT production lines and bonding machines, and office equipment such as computers.

Net cash used in investing activities was approximately HK$17.2 million for the eight months ended 31 August 2010. This was mainly attributable to the purchases of fixed assets to increase production capacity and repayment of business acquisition consideration.

Net cash used in investing activities was approximately HK$52.1 million for the year ended 31 December 2009. This was primarily attributable to the net cash outflow in relation to business combinations of approximately HK$35.2 million and the purchases of manufacturing and general office equipment of approximately HK$16.8 million during such period.

Net cash used in investing activities was approximately HK$25.1 million for the year ended 31 December 2008. This was primarily attributable to the purchases of manufacturing and general office equipment of approximately HK$24.3 million during such period.

Net cash used in investing activities was approximately HK$14.4 million for the year ended 31 December 2007. This was primarily attributable to the purchases of manufacturing and general office equipment of approximately HK$13.5 million during such period.

Cash Flows From Financing Activities

The Group derives its cash inflow from financing activities principally from new bank loans. The Group's cash outflow from financing activities primarily reflects the payment of dividends, repayment of import/export loans and repayment of bank loans and interest.

Net cash generated from financing activities of approximately HK$23.5 million for the eight months ended 31 August 2010 was primarily attributable to net bank loans raised of approximately HK$44.8 million, which was partially offset by dividend payment of approximately HK$18.5 million.

Net cash used in financing activities of approximately HK$55.1 million for the year ended 31 December 2009 was primarily attributable to dividend payment of HK$34.0 million and net repayment of factoring loans of approximately HK$22.4 million.

Net cash used in financing activities of approximately HK$14.6 million for the year ended 31 December 2008 was primarily attributable to the net repayment of import/export loans, dividends paid and repayment of bank loans amounted to approximately HK$10.9 million, HK$10.0 million and HK$4.7 million, respectively, which was partially offset by the receipt of new bank loans of approximately HK$10.0 million.

Net cash used in financing activities of approximately HK$18.6 million for the year ended 31 December 2007 was primarily attributable to the net repayment of factoring loans of approximately HK$12.1 million and dividend payment of approximately HK$6.5 million.

Working Capital Positions

The Group had net current assets of approximately HK$36.4 million, HK$70.6 million, HK$67.6 and HK$108.1 million as at 31 December 2007, 2008 and 2009 and 31 August 2010, respectively.

The current assets of the Group as at 31 December 2007, 2008, 2009 and 31 August 2010 mainly comprised inventories, trade and other receivables and cash and cash equivalents. The current liabilities of the Group as at 31 December 2007, 2008, 2009 and 31 August 2010 mainly comprised trade and other payables and interest-bearing bank borrowings.

The increase in the net current assets of approximately HK$40.5 million from approximately HK$67.6 million as at 31 December 2009 to approximately HK$108.1 million as at 31 August 2010 was mainly due to an improvement in the cash position by approximately HK$40.4 million, as a result of the improved operating results and net bank loans raised in the eight months ended 31 August 2010. Net current assets as at 31 December 2008 and 2009 remained fairly stable at approximately HK$70.6 million and HK$67.6 million, respectively. Net current assets increased by approximately HK$34.2 million from approximately HK$36.4 million as at 31 December 2007 to approximately HK$70.6 million as at 31 December 2008. The increase was primarily attributable to an improvement in the cash position by approximately HK$63.6 million, as a result of the improved results of operations in 2008.

Net current assets/(liabilities) as at 30 November 2010

The table below sets forth the breakdown of the Group's current assets and liabilities for the Group's operations as at 31 December 2009, 31 August 2010 and 30 November 2010:

	As at 31 December 2009 *HK$'000*	As at 31 August 2010 *HK$'000*	As at 30 November 2010 *HK$'000* *(unaudited)*
Current assets			
Inventories	112,806	155,948	136,943
Trade receivables	158,640	156,814	166,702
Prepayments, deposits and other receivables	12,274	32,095	54,656
Derivatives instruments	–	4,022	2,222
Amounts due from related parties	15	15	15
Current tax assets	2,431	1,043	306
Bank and cash balances	68,622	109,020	81,253
	354,788	458,957	442,097
Current liabilities			
Trade payables	107,116	134,603	116,631
Accruals and other payables	103,352	111,288	112,139
Financial liabilities at fair value through profit or loss	5,692	7,221	8,065
Amounts due to related parties	18,255	71	54
Bank borrowings	28,591	70,562	62,666
Finance lease payables	–	–	–
Product warranty provision	12,968	11,904	12,973
Current tax liabilities	11,205	15,226	8,983
	287,179	350,875	321,511
Net current assets/(liabilities)	67,609	108,082	120,586

Based on the unaudited combined management accounts of the Group as at 30 November 2010, the Group had net current assets of approximately HK$120.6 million (31 August 2010: net current assets of approximately HK$108.1 million) comprising current assets of approximately HK$442.1 million (31 August 2010: approximately HK$459.0 million) and current liabilities of approximately HK$321.5 million (31 August 2010: approximately HK$350.9 million).

CAPITAL EXPENDITURE

Capital expenditure principally comprises considerations paid for the acquisition of plant, machinery, moulds and tools, leasehold improvements, furniture and equipment and motor vehicles.

The following table sets forth the Group's capital expenditure for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure				
Leasehold improvements	998	3,443	1,303	2,626
Plant, machinery, moulds and tools	11,013	18,963	14,231	5,447
Furniture and equipment	1,064	1,154	1,627	1,083
Motor vehicles	433	752	212	–
	13,508	24,312	17,373	9,156

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, the Group incurred capital expenditure of approximately HK$13.5 million, HK$24.3 million, HK$17.4 million, and HK$9.2 million, respectively. The Group's capital expenditure mainly represented the purchases of plant, machinery, moulds and tools and the improvements made to factory structure. The increase of capital expenditure in 2008 was directly attributable to the establishment of a new factory plant in Huizhou.

To further enhance the Group's technological capabilities and ensure that it is equipped to deliver effective, 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.

INTANGIBLE ASSETS

The Group's intangible assets represented the carrying values of trademarks, licence rights and customer relationship recognised in business combinations upon the acquisition of the Group's licensed brand business in North America and own brand business in Europe during the year ended 31 December 2009.

The Group's trademarks were assessed to have indefinite useful lives.

Licence rights represent the right to use the “RCA” trademark in distribution of SMB phone systems in North America. The licensing agreement will expire on 31 December 2013.

Customer relationship represents the estimated future economic benefits to the Group arising from regular contact between individual customer and the business entity before business combination. Customer relationship is amortised over six years from 2009 to 2015.

Upon acquisition of the designated assets and liabilities of those businesses in 2009, the Group recognised a gross value of intangible assets in respect of trademark, licence rights and customer relationship amounted to approximately HK$54.7 million in aggregate. The intangible assets are subject to amortisation in the amount of approximately HK$5.6 million for the year ended 31 December 2009, giving the net carrying amount of approximately HK$48.6 million as at 31 December 2009. Amortisation of approximately HK$4.7 million was charged during the eight months ended 31 August 2010, resulting in a net carrying amount of intangible assets of approximately HK$41.8 million as at 31 August 2010.

INVENTORY ANALYSIS

The Group’s inventories comprise raw materials, work-in-progress, finished goods and goods in transit. Owing to the Group’s multi-locational operations, the Group stored its inventories in warehouses located in Hong Kong, Germany and the PRC. The Group typically manages its inventories on a “first-in, first-out” basis so that inventories first received are used first for production and distribution. As at 31 December 2007, 2008 and 2009 and 31 August 2010, the Group’s inventory levels, were approximately HK$65.3 million, HK$66.2 million, HK$112.8 million, and HK$155.9 million, respectively, representing approximately 27.3%, 20.6%, 31.8% and 34.0% of the Group’s total current assets as at the respective dates.

The following table sets forth a breakdown of the Group’s inventories for the periods indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000*
Inventory				
Raw materials	32,755	37,185	51,535	68,006
Work-in-progress	21,983	13,848	14,077	32,865
Finished goods	10,611	6,640	39,153	47,512
Goods in transit	–	8,561	8,041	7,565
	65,349	66,234	112,806	155,948

The following table sets forth a summary of the Group's average inventory turnover days for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2007	**2008**	**2009**	**2010**
Average inventory turnover (days)	51.9	33.7	51.5	61.3

The calculation of inventory turnover days is based on the average of the opening balance and closing balance of inventories divided by cost of sales and multiplied by 365 or 245, as the case may be.

Inventory turnover days decreased from 51.9 days in 2007 to 33.7 days in 2008. This was mainly due to the Group's efforts to reduce its inventories to endure tough market conditions. Inventory turnover days increased from 33.7 days in 2008 to 51.5 days in 2009 and 61.3 days in the eight-month period ended 31 August 2010. This was mainly attributable to the seasonality in the Group's operations, which gave rise to a relatively low level of sales during the period and an increase in orders for the Group's products that were due to be produced and delivered mainly in the two months subsequent to August 2010, resulting in an increase in all classes of inventories. Please refer to the paragraph headed "The Group's revenue is subject to seasonal fluctuations" under the section headed "Risk Factors – Risks relating to the business of the Group" in this prospectus for further details of the relevant risks.

In determining provision on inventories, the Group's management performs regular review on the carrying amounts of inventories with reference to aged analysis of inventories and projections of expected future saleability of goods, based on management experience and judgement. For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, net write-down on inventories with net amounts of approximately HK$0.3 million, HK$0.9 million, nil and nil, respectively, which mainly represented provision for obsolete raw materials aged over nine months.

INDEBTEDNESS AND OBLIGATIONS

Interest-Bearing Bank Borrowings

As at 30 November 2010, the Group has bank borrowings and finance lease payables as follows:

	HK$'000
Non-current liabilities	
Bank borrowings	–
Finance lease payables	–
	–
Current liabilities	
Bank borrowings	62,666
Finance lease payables	–
	62,666

The Group's bank borrowings and finance lease payables as at 31 December 2007, 2008 and 2009, 31 August 2010 and 30 November 2010 were as follows:

	As at 31 December			**As at 31 August**	**As at 30 November**
	2007	**2008**	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Long-term loans					
– secured	622	–	–	–	–
– unsecured	–	–	–	–	–
Long-term loans due within one year					
– secured	7,995	11,695	16,146	41,582	21,732
– unsecured	–	–	–	–	–
Short-term loans due within one year					
– secured	45,703	38,009	12,445	28,980	40,934
– unsecured	–	–	–	–	–
Total	54,320	49,704	28,591	70,562	62,666

Except for certain bank borrowings amounting to approximately HK$32.2 million, HK$29.2 million, HK$5.5 million, HK$6.7 million and HK$7.3 million as at 31 December 2007, 2008, 2009, 31 August 2010 and 30 November 2010, respectively, which were denominated in U.S. dollars and approximately HK$19.3 million and HK$20.4 million as at 31 August 2010 and 30 November 2010, respectively, which were denominated in Euros, all other bank borrowings and finance lease payables of the Group were denominated in HK dollars.

As at the dates indicated, the Group's bank borrowings, other loans and factoring loans bore interest rates per annum ranging from:

31 December 2007	5.5% to 6.1%
31 December 2008	1.7% to 4.5%
31 December 2009	2.8% to 3.1%
31 August 2010	2.9% to 3.0%

The average effective borrowing rate of the Group's finance lease payables were 6.63% and 4.75% as at 31 December 2007 and 31 December 2008, respectively.

As at 31 December 2007, 2008, 2009 and 31 August 2010, the Group had general banking facilities (including factoring loan facilities) granted by banks to the extent of approximately HK$117.0 million, HK$144.6 million, HK$149.4 million and HK$199.3 million, respectively. The facilities were secured by the following:

(i) corporate guarantee executed by Telefield (BVI);

(ii) corporate guarantee executed by Telefield (HK) and Telefield Medical as at 31 August 2010;

(iii) personal guarantee executed by a Director;

(iv) government guarantee of the Hong Kong Special Administrative Region up to approximately HK$7.2 million as at 31 December 2009 and 31 August 2010; and

(v) certain sets of machinery of a subsidiary amounted to approximately HK$5.5 million and HK$4.8 million for the two years ended 31 December 2007 and 2008, respectively.

As at 31 December 2007, 2008 and 2009 and 31 August 2010, trade receivables of approximately HK$44.9 million, HK$30.0 million, nil and nil, respectively, were pledged to a bank to secure factoring loan facilities.

During the eight months ended 31 August 2010, the Group breached certain covenant clauses of a bank loan agreement in relation to the maintenance of its net leverage ratio and consolidated tangible net worth. As a result, the outstanding balance of a bank loan of approximately HK$16.7 million as at 31 August 2010, was subject to an early repayment option by the bank. The bank had not requested early repayment of the relevant bank loan and subsequently waived the breach of the covenants on 7 July 2010. The outstanding balance of the relevant bank loan was fully settled and the relevant credit facilities was cancelled subsequently on 8 September 2010. Since 30 November 2010, there has not been any material adverse change in the Group's indebtedness.

The maturity of the Group's bank borrowings as at the dates indicated is as follows:

	As at 31 December			As at 31 August	As at 30 November
	2007	**2008**	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Within one year	51,503	49,082	28,591	70,562	62,666
In the second year	–	–	–	–	–
In the third to fifth years inclusive	–	–	–	–	–
Total	51,503	49,082	28,591	70,562	62,666

The maturity of the Group's finance lease payables as at the dates indicated is as follows:

	As at 31 December			As at 31 August	As at 30 November
	2007	**2008**	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Within one year	2,195	622	–	–	–
In the second to fifth years inclusive	622	–	–	–	–
	2,817	622	–	–	–

The Group's debt-to-equity ratio was approximately 72.0%, 41.1%, 19.6%, 38.6% and 31.7% as at 31 December 2007, 2008 and 2009, 31 August 2010 and 30 November 2010, respectively. Debt-to-equity ratio was calculated by dividing total interest-bearing borrowings by total equity.

Debt-to-equity ratio increased from approximately 19.6% as at 31 December 2009 to approximately 38.6% as at 31 August 2010, which was mainly caused by the increase in bank borrowings from approximately HK$28.6 million as at 31 December 2009 to approximately HK$70.6 million as at 31 August 2010, in order to finance the expansion in the Group's German operations. Although the total equity increased from approximately HK$145.9 million as at 31 December 2009 to approximately HK$182.7 million with the profit of approximately HK$36.0 million for the eight months ended 31 August 2010, the increase in debt exceeded the increase in the equity giving rise to the increase in debt-to-equity ratio.

Debt-to-equity ratio decreased from approximately 41.1% in 2008 to approximately 19.6% in 2009, which was primarily attributable to the repayment of bank borrowings and the increase in total equity from approximately HK$120.4 million in 2008 to approximately HK$145.9 million in 2009, mainly funded by net profit for the year amounted to approximately HK$72.7 million.

Debt-to-equity ratio decreased from approximately 72.0% in 2007 to approximately 41.1% in 2008, which was primarily attributable to the significant increase in total equity, mainly funded by net profit for the year amounted to approximately HK$51.3 million.

As at 31 August 2010, total banking facilities available to the Group amounted to approximately HK$199.3 million, approximately HK$79.3 million of which was utilised, with an unutilised balance of approximately HK$120.0 million. In connection with certain banking facilities of the Group during the Track Record Period, Telefield (HK) undertook to maintain its tangible net worth of not less than HK$20 million.

In relation to the banking facilities granted to the Group, the Group has received a letter of confirmation from each of the relevant banks confirming, among other things, that as at the date of the respective letter, provided that the status quo remains unchanged, the letter did not foresee that it would not continue to grant or renew the relevant banking facilities to the Group and that the relevant facilities had not been withdrawn and no notice had been served to withdraw the relevant banking facilities.

In addition, Mr. Cheng, one of the Controlling Shareholders has provided personal guarantees for the Group's banking facilities for an unlimited amount as at 31 December 2007, 31 December 2008, 31 December 2009 and 31 August 2010, respectively. All the relevant banks have released Mr. Cheng's personal guarantees though some of the releases are subject to certain conditions, including the Listing becoming successful and the Group having provided corporate guarantee for the banking facilities for an unlimited amount.

As at 30 November 2010, the Group's total bank borrowings amounted to approximately HK$62.7 million, consisting of short-term secured bank loans of approximately HK$41.0 million and long-term secured bank loans of approximately HK$21.7 million. There has not been any material change in the Group's indebtedness since 30 November 2010.

Commitments

The Group leases its offices, factories and staff quarters under operating leases arrangements. Leases are negotiated for terms ranging from one to 17 years. The following table sets forth its minimum lease payments under operating leases falling due as at the dates indicated:

	As at 31 December			As at 31 August	As at 30 November
	2007	**2008**	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*
Within one year	5,218	6,469	7,250	8,592	7,933
In the second to fifth years inclusive	11,406	14,131	21,769	22,939	22,366
Over five years	2,847	3,599	17,274	15,019	14,040
Total	19,471	24,199	46,293	46,550	44,339

In addition to the operating lease commitments set out above, the Group had the following capital commitments for plant and machinery as at the dates indicated:

	As at 31 December			As at 31 August	As at 30 November
	2007	**2008**	**2009**	**2010**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*
Contracted, but not provided for	4,771	2,091	82	776	2,972
Approved, but not contracted for	–	–	–	21,640	15,511
	4,771	2,091	82	22,416	18,483

Contingent liabilities

As at 30 November 2010, the Group had no material contingent liabilities. The Group is not currently involved in any material legal proceedings, and is not aware of any pending or potential material legal proceedings involving the Group. If involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Off-balance sheet commitment and arrangements

Except for the commitments set forth above, the Group did not have any off-balance sheet commitments or arrangements as at 31 August 2010.

Disclaimers

Save as disclosed in the sub-section headed "Indebtedness and obligations" in this section and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 November 2010.

The Directors confirm that, up to the Latest Practicable Date, there have been no material changes in the Group's indebtedness and contingent liabilities since 30 November 2010, except the declaration of dividend of HK$33.8 million by the Group's subsidiaries in December 2010 to its then shareholders for profit generated during the eight months ended 31 August 2010, which was fully settled as at the Latest Practicable Date.

TRADE AND OTHER RECEIVABLES

Turnover of trade receivables

The Group's trade receivables represent the receivables from its customers. The Group grants credit terms to its customers based on their purchase volumes, stability of purchases, creditworthiness and the Group's trading history with the customer. The terms of credit the Group grants to its customers are usually 30 to 180 days, or the Group's customers are requested to settle their previous accounts before further acceptance of purchase orders by the Group from them. For those customers who only have a small volume of transactions or short trading history with the Group, they are not eligible for a credit period and the Group generally requests prepayments before delivery. Customers are required to settle trade receivables in the form of letters of credit, bank remittance or cheques.

The following table sets forth the details of the Group's trade receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	152,465	158,481	161,532	159,502
Less: impairment	(1,740)	(2,653)	(2,892)	(2,688)
Total	150,725	155,828	158,640	156,814

The following table sets forth the turnover of the Group's trade receivables for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2007	**2008**	**2009**	**2010**
Turnover of trade receivables (days)	87.9	65.9	69.8	56.0

The calculation of trade receivables turnover days is based on the average of the opening balance and the closing balance of trade receivables divided by revenue and multiplied by 365 days or 245 days, as the case may be.

For the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, trade receivables turnover days were approximately 87.9 days, 65.9 days, 69.8 days and 56.0 days, respectively. The improvement in turnover days was primarily attributable to the availability of factoring facilities to discount some of the trade receivable balances before they fall due, coupled with the improvements in the Group's ability to tighten the credit terms granted to customers.

Age of trade receivables

The following table sets forth an aged analysis of the Group's trade receivables that are not considered to be impaired, as at the dates indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	120,084	130,475	134,746	116,011
Less than 3 months past due	29,993	24,364	22,750	35,109
Over 3 months past due	648	989	1,144	5,694
Total	150,725	155,828	158,640	156,814

As at 31 December 2007, 2008 and 2009 and 31 August 2010, substantially all of the Group's trade receivables were due and receivable within a period of 12 months, for which the Group expects to fully recover the outstanding balance of trade receivables.

In determining impairment losses, the Group conducts regular reviews of aging analysis and evaluation of collectibility of individual balances. The Group estimates that certain trade receivables unsettled over 180 days are still recoverable based on individual analyses of the relevant customers' credit history and financial position. However, such estimates involve inherent uncertainties and the actual unrecoverable amount may be higher than the amount estimated. The Group made provision for impairment of trade receivables in the net amount of approximately HK$1.7 million, HK$0.9 million, HK$0.2 million and nil for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively.

Up to 30 November 2010, subsequent settlements of the outstanding balance of trade receivables as at 31 August 2010 amounted to approximately HK$149.8 million, representing approximately 95.5% of the outstanding balance.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of the Group's prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Factoring receivables	–	–	–	10,592
Prepaid listing expenses	–	–	1,908	6,711
Rental and sundry deposits	3,500	6,462	5,138	6,130
Purchase deposits	2,324	615	2,304	5,579
Prepaid operating expenses	410	1,453	1,082	1,716
Other receivables	941	1,146	1,842	1,367
Deposit for obtaining the licensed brand	–	4,290	–	–
	7,175	13,966	12,274	32,095

The increase in prepayments, deposits and other receivables during the Track Record Period was primarily attributable to (i) an increase in factoring receivables in relation to the operations of TrekStor (Germany); and (ii) an increase in prepaid listing expenses, which will be recognised as a reduction to equity and as an item of administrative expenses upon Listing.

TRADE AND OTHER PAYABLES

Turnover of trade payables

The Group's trade payables mainly relate to the purchases of raw materials and components from the Group's suppliers with credit terms which generally ranges from 30 to 90 days. The Group settles its trade payables mainly in the form of letters of credit, bank remittance and cheques.

The table below sets forth the turnover of trade payables for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2007	2008	2009	2010
Turnover of trade payables (days)	61.6	50.3	60.4	55.1

The calculation of trade payables turnover days is based on the average of the opening balance and the closing balance of trade payables divided by cost of goods sold multiplied by 365 days or 245 days, as the case may be.

Trade payables turnover days were approximately 61.6 days, 50.3 days, 60.4 days and 55.1 days for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The decrease in trade payables turnover days for the year ended 31 December 2008 was primarily attributable to the increased instances of cash settlements made for purchases towards the end of 2008, as a result of the financial crisis. The increase in trade payables turnover days for the year ended 31 December 2009 was primarily attributable to extended credit terms granted by suppliers that was comparable to that in 2007, as a result of economic recovery towards the end of 2009. Trade payables turnover days decreased to approximately 55.1 days for the eight months ended 31 August 2010 mainly as a result of the increased purchases made under tight credit terms from new suppliers for the own brand non-telecommunications business carried out by TrekStor (Germany), which increased costs of goods sold without increasing trade payables balance correspondingly.

Age of trade payables

The following table sets forth a summary of the age of the Group's trade payables, based on invoice date as at the dates indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	92,043	98,827	103,744	125,580
91 to 180 days	1,005	3,017	2,577	7,143
181 to 365 days	215	612	–	729
over 365 days	257	431	795	1,151
Total	93,520	102,887	107,116	134,603

Accruals and other payables

The following table sets forth the breakdown of the Group's accruals and other payables as at the dates indicated:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued staff salaries, wages and benefits	21,031	39,578	58,407	68,794
Customer deposits and other receipts in advance	11,199	10,711	7,620	14,003
Accrued operating expenses	5,927	7,383	13,769	14,340
Other accruals and other payables	3,843	11,001	8,080	8,681
TrekStor acquisition payables	–	–	10,005	4,447
Payable for other consumables	4,019	2,588	5,471	1,023
	46,019	71,261	103,352	111,288

As at 31 December 2007, 2008 and 2009 and 31 August 2010, the Group's accruals and other payables amounted to approximately HK$46.0 million, HK$71.3 million, HK$103.3 million and HK$111.3 million, respectively. The increase in accruals and other payables during the Track Record Period was primarily attributable to an increase in accrued staff salaries, wages and benefits mainly fuelled by an increase in the provision for social security insurance contribution in relation to the Group's PRC employees, due to an increase in the number of staff and reasons outlined in the section headed "Risk Factors" in this prospectus.

RELATED PARTIES BALANCES

The table below sets forth the balances between the Group and the related parties as at the dates indicated:

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from/(to) a shareholder				
– Dragon Fortune	2,944	8,836	(18,255)	–
Amount due from a director				
– Mr. Cheng	–	24	–	–
Amount due (to) a director				
– Mr. Cheng	(15)	(498)	–	(17)
Amount due from/(to) a fellow subsidiary				
– Electronic Wisdom Technology Limited	45	–	–	(54)
Amounts due from related companies				
– Cyber Team Limited	331	–	–	–
– Vita Health Enterprises Limited	17	25	15	15
– Asia Pacific Information Network Limited	75	–	–	–
	423	25	15	15
Amount due from an associate				
– Colisa Limited	–	38	–	–
Amounts due (to) related companies				
– Cyber Team Limited	(1,349)	(1,638)	–	–
– Vita Health Enterprises Limited	(10)	(10)	–	–
– Asia Pacific Information Network Limited	–	(435)	–	–
– Woori Telefield Limited	(2,794)	(2,773)	–	–
	(4,153)	(4,856)	–	–
Amount due (to) non-controlling interest shareholder	–	(498)	–	–

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

OTHER KEY FINANCIAL RATIOS

	As at/for the year ended 31 December			As at/for the eight months ended 31 August
	2007	2008	2009	2010
Current ratio *(Note 1)*	1.18	1.28	1.24	1.31
Quick ratio *(Note 2)*	0.86	1.02	0.84	0.86
Return on assets *(Note 3)*	5.1%	13.7%	15.4%	9.4%
Return on equity *(Note 4)*	19.0%	42.6%	52.0%	36.1%

Notes:

(1) Current ratio equals to total current assets divided by total current liabilities.

(2) Quick ratio equals to total current assets less inventories, divided by total current liabilities.

(3) Return on assets equals to net profit for the period multiplied by 365 and divided by 245, or net profit for the year, divided by total assets and multiplied by 100%, as the case may be.

(4) Return on equity equals to net profit for the period attributable to owners of the Company multiplied by 365 and divided by 245, or net profit for the year attributable to owners of the Company, divided by shareholders' equity and multiplied by 100%, as the case may be.

Current ratio

The Group's current ratio as at 31 December 2008 was approximately 1.28, which increased as compared to approximately 1.18 as at 31 December 2007. The Group's current ratio as at 31 December 2009 was approximately 1.24, which remained fairly stable as compared to approximately 1.28 as at 31 December 2008. The Group's current ratio was approximately 1.24 as at 31 December 2009, which remained fairly stable as compared to approximately 1.31 as at 31 August 2010.

Quick ratio

The Group's quick ratio as at 31 December 2008 was approximately 1.02, which increased as compared to approximately 0.86 as at 31 December 2007. The Group's quick ratio as at 31 December 2009 decreased to approximately 0.84 as compared to approximately 1.02 as at 31 December 2008. The decline was primarily attributable to an increase in short-term bank borrowings, part of which was used to finance the increase in the level of inventory, reasons for which are outlined in the sub-section headed "Inventory analysis" in this section. The Group's quick ratio as at 31 August 2010 was approximately 0.86, which remained fairly stable as compared to 0.84 as at 31 December 2009.

Return on assets

Return on assets increased from approximately 5.1% for the year ended 31 December 2007 to approximately 13.7% for the year ended 31 December 2008. This was mainly attributable to the increase in net profit from approximately HK$14.4 million for the year ended 31 December 2007 to approximately HK$51.3 million for the year ended 31 December 2008, the effect of which was partially offset by the increase in total assets from approximately HK$280.9 million for the year ended 31 December 2007 to approximately HK$372.9 million for the year ended 31 December 2008. Return on assets increased moderately from approximately 13.7% for the year ended 31 December 2008 to approximately 15.4% for the year ended 31 December 2009. Return on assets decreased from approximately 15.4% for the year ended 31 December 2009 to approximately 9.4% for the eight months ended 31 August 2010, which was primarily attributable to (i) the net loss sustained by TrekStor (Germany), the details of which are set out in the paragraph headed "The eight months ended 31 August 2010 compared to the eight months ended 31 August 2009 – Profit for the period attributable to owners of the Company" under the sub-section headed "Review of historical operating results" in this section; and (ii) the effects of seasonal fluctuation in revenue for the eight months ended 31 August 2010, resulting in lower revenue recognised in the first half than the second half of each year, detailed explanation for which is outlined in the sub-section headed "Seasonality factors" in this section.

Return on Equity

Return on equity increased from approximately 19.0% for the year ended 31 December 2007 to approximately 42.6% for the year ended 31 December 2008. This was mainly attributable to an increase in the Group's net profit for the year ended 31 December 2008, the effect of which was partially offset by a corresponding increase in the Group's retained profits. Return on equity remained stable from approximately 42.6% for the year ended 31 December 2008 to approximately 52.0% for the year ended 31 December 2009. Return on equity decreased from approximately 52.0% for the year ended 31 December 2009 to approximately 36.1% for the eight months ended 31 August 2010. The decrease was primarily attributable to (i) the net loss sustained by TrekStor (Germany), the details of which are set out in the paragraph headed "The eight months ended 31 August 2010 compared to the eight months ended 31 August 2009 – Profit for the period attributable to owners of the Company" under the sub-section headed "Review of historical operating results" in this section; and (ii) the effects of seasonal fluctuation in revenue for the eight months ended 31 August 2010, resulting in lower revenue recognised in the first half than the second half of each year, detailed explanation for which is outlined in the sub-section headed "Seasonality factors" in this section.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group hedges its foreign exchange rate risk through the use of derivative financial instruments. The Group primarily enters into foreign currency forward contracts and put option (the put option enables the Group to sell Euro at a designated strike price) to reduce the effects of fluctuating foreign currency exchange rates, in particular, the exchange rate between Euro and HK dollars. The Group categorises these instruments as being entered into for purposes other than trading.

The financial derivative contracts are traded "over the counter" with major financial institutions and generally mature within not more than 12 months. The accounting treatment of derivatives is described in note 4(t) to the Accountant's Report set forth in Appendix I to this prospectus.

According to the Group's policy, the senior manager of finance and accounting reviews the current and forecasted foreign exchange rate risk exposures on a monthly basis and proposes hedging transactions to the Group's Chief Financial Officer for approval. The senior manager is a qualified member of the Hong Kong Institute of Certified Public Accountants and has worked with the Group since 1993. As a matter of policy, the Group only enters into contracts with counterparties that are major financial institutions. The Group does not have significant exposure to any counterparty. The Directors believe that the risk of default under these hedging contracts is remote and in any event would not be material to the consolidated financial results. The Group does not utilise derivative financial instruments for speculative purposes.

As at 31 August 2010, the Group had foreign exchange derivatives net assets with fair value of approximately HK$4.0 million in the form of foreign currency options. The notional principal amounts of outstanding foreign currency option derivatives as at 31 August 2010 was Euro 3.0 million. The Group exercised the above-mentioned foreign currency option on 4 January 2011. As at the Latest Practicable Date, the Group did not have any foreign currency option.

WORKING CAPITAL

Taking into account the cash flows generated from the Group's operations, banking facilities available and the estimated net proceeds from the Listing, the Directors confirm that the Group has sufficient working capital for the Group's requirements for at least 12 months from the date of this prospectus.

MARKET RISK

Foreign Exchange Rate Risk

The Group has certain exposure to foreign exchange rate risk as part of its business transactions, assets and liabilities are denominated in U.S. dollars, RMB and Euro. The Directors monitor the Group's foreign currency exposure closely and the Group currently hedges its exposure to the Euro, details of which are outlined in the sub-section headed "Derivative financial instruments and hedging activities" in this section.

As at 31 August 2010, if the U.S. dollars had strengthened/weakened one per cent against the HK dollars with all other variables held constant, profit for the year/period and retained profits would have been approximately HK$1,299,000 (31 December 2009: HK$1,099,000; 2008: HK$1,025,000; 2007: HK$667,000) higher/lower, arising mainly as a result of the foreign exchange gains/losses on assets denominatd in U.S. dollars.

As at 31 August 2010, if the Euro had strengthened/weakened ten per cent against the HK dollars with all other variables held constant, profit for the year/period and retained profits would have been approximately HK$2,650,000 higher/lower (31 December 2009: HK$3,005,000 higher/lower; 2008: HK$39,000 lower/higher; 2007: HK$60,000 lower/higher), arising mainly as a result of the foreign exchange losses/gains on assets denominatd in Euro.

As at 31 August 2010, if the RMB had strengthened/weakened five per cent against HK dollars with all other variables held constant, profit for the year/period and retained profits would have been approximately HK$3,702,000 (31 December 2009: HK$3,243,000; 2008: HK$3,273,000; 2007: HK$2,466,000) lower/higher, arising mainly as a result of the foreign exchange gains/losses on liabilities denominated in RMB.

Credit Risk

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The carrying amount of the bank and cash balance, derivative financial instruments, trade receivables and other receivables and due from related companies included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's maximum exposure to credit risk in relation to the Group's financial assets.

In order to minimise credit risk, the management has delegated a management team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the management reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has certain concentration of credit risk, as the Group's largest three debtors accounted for approximately 76%, 59%, 48% and 54% of trade receivables as at 31 December 2007, 2008, 2009 and 31 August 2010, respectively.

Liquidity Risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Interest Rate Risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

As at 31 December 2007, 2008 and 2009 and 31 August 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit for the year/period and retained profits for the years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, by approximately HK$(432,000), HK$8,000, HK$139,000 and HK$(19,000), respectively.

The sensitivity analysis indicates the impact on the Group's profit for the year/period and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Track Record Period.

Inflation

According to the National Bureau of Statistics of China, the PRC's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8%, 5.9%, (0.7%) and 2.8% for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The inflation rate in China has been subject to an upward trend since 2007. As at the Latest Practicable Date, the Group had not been materially affected by any inflation. The Group cannot assure you that the inflation rate in the PRC will decrease or increase in the future. The Group cannot predict the impact a sustained increase in inflation will have on the Group's business, results of operations, financial position or prospects.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2010

Unaudited estimated combined profit attributable to owners of the Company[(Note 1)]	not less than HK$67.6 million
Unaudited pro forma estimated earnings per Share[(Note 2)]	not less than HK$0.17

Notes:

(1) The bases and assumptions on which the above profit estimate for the year ended 31 December 2010 has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma estimated earnings per Share for the year ended 31 December 2010 is based on the above unaudited estimated combined profit attributable to owners of the Company for the year ended 31 December 2010 and assumes that a total of 400,000,000 Shares were in issue during the entire year, without taking into account any further Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of options which have been granted or may be granted under the Share Option Scheme.

PROPERTY VALUATION

As at 30 November 2010, the Group's properties held under land and buildings were revalued by DTZ, and the relevant property valuation report is set out in Appendix IV to this prospectus. The net revaluation surplus, representing the excess of market value of the properties over their carrying values, has not been included in the Group's consolidated financial information as at 31 August 2010 as the Group's property interests are stated at fair value less accumulated depreciation and accumulated impairment losses.

The table below sets forth the reconciliation of the aggregate amounts of property interests from the Groups consolidated financial information as at 31 August 2010 to the valuation amount of the Company's property interests as at 30 November 2010:

	HK$'000
Net book value of the Company's property interests as at 31 August 2010	9,636
Movements for the three months ended 30 November 2010	
– Additions	–
– Depreciation	99
Net book value of the Company's property interests as at 30 November 2010	9,537
Valuation surplus as at 30 November 2010	2,463
Valuation as at 30 November 2010 per Appendix IV to this prospectus	12,000

DIVIDENDS

Subject to the Companies Law, the Company may declare dividends at a general meeting of the Shareholders in any currency but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide that dividends may be declared and paid out of the Company's profit, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. The principal source of funding for the Company's dividend payment was the cash inflow generated from the Group's operations. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him/her to the Company on account of calls or otherwise.

The Board will review the Company's dividend policy from time to time taking into account the following factors in determining whether dividends are to be declared and paid:

- the Group's earnings and profitability;
- interests of the Shareholders;
- the Group's general business conditions and strategies;
- the Group's capital requirements;
- the payment of cash dividends to the Company by its subsidiaries;
- possible effects of dividend distribution on the liquidity and financial position of the Group; and
- any other factors which the Board may deem relevant.

The Company's future dividend payments to the Shareholders will also depend upon the availability of dividends declared and distributed by the Group's subsidiaries in the PRC. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from HKFRS. PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute dividends. These statutory reserves are not available for distribution as cash dividends. Distributions from the Group's subsidiaries may also be restricted if they incur losses or by any restrictive covenants in bank credit facilities or other agreements that the Group or its subsidiaries may enter into in the future.

Any dividends on the Shares will be declared and paid in Hong Kong dollars on a per Share basis. Any final dividend for a financial year will be subject to Shareholders' approval.

After completion of the Share Offer, the Shareholders will be entitled to receive dividends declared by the Company. Subject to the considerations and factors described above, the Group's future dividend policy is that approximately 30% to 50% of the Group's profits available for distribution will be recommended for distribution for each financial year. As the Company has not been listed for the whole of the year ending 31 December 2011, the dividend payment for the year ending 31 December 2011 will be determined on a pro-rata basis based on the period from the Listing Date to 31 December 2011.

The Group's subsidiaries declared dividends of approximately HK$10.0 million, HK$19.0 million, HK$33.5 million and HK$33.8 million to their then shareholders for profit generated during the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2010, respectively. The principal source of funding for such dividend payments was from the cash inflow generated from the Group's operations. As at the Latest Practicable Date, all dividends payable for each year or period during the Track Record Period had been settled.

DISTRIBUTABLE RESERVES

As at 31 August 2010, the Company had no distributable reserves available for distribution to the Shareholders. The Group's retained profits as at 31 August 2010 amounted to approximately HK$158.8 million.

Unaudited Pro Forma Adjusted Combined Net Tangible Assets

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set forth herein to illustrate the effect of the Listing on the Group's combined net tangible assets as at 31 August 2010 as if it had taken place on 31 August 2010.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the Group's combined net tangible assets as at 31 August 2010 or any future date following the Listing. It is prepared based on the Group's combined net assets as at 31 August 2010 as derived from the Group's combined financial information set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Combined net tangible assets attributable to owners of the Company as at 31 August 2010 *HK$'000*(Note 1)	Add: Estimated net proceeds from the Share Offer *HK$'000*(Note 2)	Unaudited pro forma adjusted combined net tangible assets *HK$'000*	Unaudited pro forma adjusted net tangible assets per Share *HK$*(Note 3)
Based on an Offer Price of HK$1.01 per Share	161,068	80,852	241,920	0.60
Based on an Offer Price of HK$1.35 per Share	161,068	113,489	274,557	0.69

Notes:

(1) The combined net tangible assets attributable to owners of the Company as at 31 August 2010 was determined as follows:

	HK$'000
Audited combined net assets as set out in Appendix I to this prospectus	182,713
Add: Non-controlling interests as set out in Appendix I to this prospectus	12,031
Combined net assets attributable to owners of the Company	194,744
Less: Intangible assets attributable to owners of the Company	(33,676)
Combined net tangible assets attributable to owners of the Company	161,068

(2) The estimated net proceeds from the Listing are based on indicative Offer Prices of HK$1.01 and HK$1.35 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options which have been granted or may be granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares are in issue immediately after the completion of the Share Offer but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of any options which have been granted or may be granted under the Share Option Scheme.

(4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 August 2010. In particular, the unaudited pro forma net tangible assets of the Group attributable to the owners of the Company does not take into account the dividend of HK$33.8 million declared by the Board of Telefield (BVI) on 30 December 2010, which was paid to the shareholders on 30 December 2010. The unaudited pro forma adjusted net tangible assets per share would have been reduced to HK$0.52 and HK$0.60 per share based on the Offer Price of HK$1.01 and HK$1.35 respectively, after taking into account the payment of the special dividend in the sum of HK$33.8 million.

(5) The Group' property interests as at 30 November 2010 have been valued at approximately HK$12 million by DTZ, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The above unaudited pro forma statement of adjusted consolidated net tangible assets has not taken into account the surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to approximately HK$2.46 million. Had the valuation surplus been recorded in the Company's financial statements, the depreciation expenses for the year ending 31 December 2010 would increase by approximately HK$0.01 million.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that as of the Latest Practicable Date there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

The Directors confirm that there have been no interruptions in the Group's business that may have a significant effect on the Group's results of operations and financial position in the last 12 months.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group's financial or trading position since 31 August 2010.