Prospective investors should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with an investment in the Company. The Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks or any additional risks and uncertainties not presently known to the Company or that the Company currently deem immaterial. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP

The Group provides a relatively long credit period and extends credit period for certain customers

The Group has laid down, in principle, the maximum contractual credit period to be offered to each type of customers (conprising system integrators, distributors and direct customers). Each sales representative, when negotiating payment terms with each type of customers, is required to ensure that the credit period to be agreed shall not exceed the applicable maximum contractual credit period and is encouraged to negotiate and agree on a shorter credit period than the applicable maximum contractual credit period, so as to minimize the risk exposed to the Group. The actual contractual credit period agreed with customers is determined with reference to, among other things, the business nature, reputation, financial background, credit history, on-going relationship, product type and corporate background.

During the Track Record Period, except for the retention money which will only be payable upon expiry of warranty period, actual contractual credit periods ranging from five days to 180 days were agreed with customers under sales contracts. Taking into account of the applicable maximum contractual credit period, extension beyond the actual contractual credit period would be granted by the Group to certain customers considering the length of business relationship with the Group, frequency of transactions with the Group, potential to develop stable business relationship, or whether their technical expertise is valuable to the Group's development, or whether they are governmental bodies or who has government-related background. Trade receivables past due (i.e. outstanding beyond the contractual credit period) but not impaired accounted for approximately 9.1%, 42.3%, 12.1% and 7.0% of the total trade receivables outstanding as at the end of each reporting period. As at 31 October 2011, the Group's trade receivables amounted to approximately HK$115.0 million and accounted for approximately 45.6% of the Group's total current assets, of which approximately HK$8.7 million were outstanding for six months or above. The trade receivables turnover days were approximately 174 days, 274 days, 294 days and 255 days during the three years ended 31 March 2011 and the seven months ended 31 October 2011. The relatively long or extension of credit period provided to the customers is subject to credit risk. Further, in light of the Group's business expansion, the Group may need to provide additional sales on credit to its customers, leading to increased customers' credit risk. The Group's cash flow and financial position could be adversely affected should the Group experience any difficulty in collecting payment from its customers. Hence, the Group's business, financial condition and results of operations may be adversely affected.

Any significant impairment of trade receivables may adversely affect the cash flow and working capital, financial condition and results of operation of the Group

Notwithstanding the fact that the Group provided a relatively long credit period and extension of credit period for certain customers during the Track Record Period, no trade receivables of the Group as at 31 March 2009, 2010 and 2011 and 31 October 2011 were individually determined to be impaired. There were also no special allowances for doubtful debts for the three years ended 31 March 2011 and the seven months ended 31 October 2011 recognized.

In determining if recognition of impairment is required, the Group takes into account the collection history, collectability, creditworthiness and financial condition of the customers. Impairment will be made for specific trade receivables when the management of the Group, having considered the above factors, are of the view that such trade receivables are unlikely to be collected. The Directors and the Reporting Accountants are of the view that no impairment for trade receivables was required for the Track Record Period. Details of the basis of no impairment made during the Track Record Period are set out in the section headed "Financial Information — Analysis of Major Statement of Financial Position Components — Trade and other receivables — Trade Receivables" of this prospectus.

However, there is no assurance that the collectability, creditworthiness and financial condition of and the possible effect of market, technology, legal environment on the customers of the Group will not deteriorate. Any material default of payment, any significant impairment or provisions for impairment of trade receivables of the Group may adversely affect the cash flow and working capital, financial condition and results of operation of the Group.

The Group is exposed to concentration of credit risk of sales to system integrators

During the Track Record Period, the sales to system integrators amounted to approximately HK$118.9 million, HK$175.2 million, HK$141.7 million and HK$63.1 million, which accounted for approximately 73.6%, 81.7%, 64.8% and 61.6% of the total turnover of the Group during the respective periods, respectively. During the Track Record Period, the Group has agreed with the system integrators for contractual credit periods ranging from five days to 180 days. As at 31 March 2009, 2010 and 2011 and 31 October 2011, approximately HK$94.8 million, HK$199.6 million, HK$81.2 million and HK$82.4 million, representing 94.5%, 90.0%, 62.2% and 71.6% of the total trade receivables, were due from the system integrators, respectively. Extension of credit period was required by the customers of the Group, including the system integrators, mainly because such customers experienced delay in receiving final payment from their respective end customers or their respective end customers are subject to strictly regulated governmental annual budgeting process which prolonged the settlement process. If the end customers of the system integrators experience financial distress or do not settle the purchase amount with the system integrators who place purchase order with the Group, or the system integrators do not pay the Group for their purchases in a timely manner or at all, the financial condition and results of operations of the Group could be materially and adversely affected as the Group do not have rights to claim the unpaid amount from the end customers under the applicable PRC laws and regulations.

The Group recorded net cash outflow in operating activities for the years ended 31 March 2009 and 2010. Any net cash outflow in operating activities experienced by the Group in the future may adversely affect the business operation and the liquidity of the Group

The Group has recorded substantial increase in trade and other receivables and inventories for the Track Record Period. Net cash of approximately HK$5.1 million and HK$3.9 million was used in operating activities of the Group for the two years ended 31 March 2009 and 2010, respectively. Despite the fact that the Group did not record net cash outflow in operating activities for the year ended 31 March 2011 and the seven months ended 31 October 2011, the Group cannot ensure that it will not experience net cash outflow in operating activities in the future. If the Group experiences net cash outflow in operating activities, the cash reserve of the Group may be insufficient for its operation, and the business operation and the liquidity of the Group may be adversely affected.

The Group relies on its major customers

For each of the three years ended 31 March 2011 and the seven months ended 31 October 2011, the five largest customers of the Group, in aggregate, accounted for approximately 85.8%, 86.4%, 82.4% and 96.5% of the Group's total sales, respectively.

During the Track Record Period, sales to the largest customer of the Group, Techtone Communication accounted for approximately 62.3%, 50.0%, 39.0% and 43.0% of the Group's total sales during the respective reporting periods. The Group relied heavily on Techtone Communication for a significant portion of its sales. During the Track Record Period, the contractual credit periods agreed with Techtone Communication were generally 180 days, whereas the maximum extension of credit period granted to Techtone Communication was 17 months. The Group and Techtone Communication entered into a co-operation framework agreement in December 2002 for a term of ten years, expiring in December 2012. The Group had been in negotiation with Techtone Communication for renewal of the co-operation framework agreement and a memorandum of intention was signed by the Group and Techtone Communication in March 2012 indicating the parties' intention to renew the co-operation framework agreement for a further period of not less than five years.

Prior to 26 February 2008, Techtone Communication was a connected person of the Company. Ms. Ni, an executive Director, was a director for two holding companies of Techtone Communication and held 40% of equity interests in a holding company of Techtone Communication. Mr. Wong Chit On was the legal representative and director of Techtone Communication and two of the holding companies of Techtone Communication namely Shenzhen City Xietong Xunda Industry Company Limited (深圳市協同迅達實業有限公司) ("Shenzhen Xietong Xunda") and Shenzhen City Techtone Information Communication Company Limited (深圳市天恒通信息通信有限公司) ("Shenzhen Techtone"). Mr. Wong Chit On ceased to be the legal representative and director of Techtone Communication, Shenzhen Xietong Xunda and Shenzhen Techtone on 18 April 2006, 1 February 2008 and 18 December 2007, respectively. On 26 February 2008, Mr. Wong Chit On also ceased to be the supervisor of Shenzhen City Daiyou Communication Limited (深圳市大有通訊有限公司), another holding company of Techtone Communication. After Ms. Ni's disposal of her indirect interest in Techtone Communication on 1 February 2008 and her resignation as director of its two holding companies on 1 February 2008 and 26 February 2008 respectively, Techtone Communication ceased to be a connected person of the Company. Further details of the relationship of the Group with Techtone Communication are set out in the section headed "Relationship with Techtone Communication and Synertone Telecom" of this prospectus.

The Group anticipates that it will continue to derive a significant portion of its revenue from its five largest customers and in particular, Techtone Communication, in the near future. There can be no assurance that the Group will be able to retain its major customers or receive any purchase order at favourable terms to the Group, or that they will maintain or increase their current level of business with the Group. There can be no assurance that the Group will be able to renew the co-operation framework agreement with Techtone Communication for a long term, or in favourable terms to the Group. Any significant reduction in the volume of business with any of these customers including Techtone Communication or any significant restriction in pricing terms for these customers, or any cancellation, delay or reduction in the scope of the existing sales to any of the major customers of the Group, could have a material adverse effect on the Group's operating results and profitability.

Some or all of the Group's key customers may change their procurement policies, which could cause them to purchase less from the Group or force the Group to lower the selling prices of its products and services

To the best knowledge of the Directors, a majority of the end customers of the Group's customers during the Track Record Period were the PRC public sector, including public security, police, armed police, etc.. The procurement policies of certain customers of the Group and their respective end customers are subject to the policies of the PRC government and the development of the industry which the Group belongs to. In particular their demand for the products and services from the Group were governed by the Government Procurement Law of the PRC (《中華人民共和國政府採購法》), pursuant to which procurement of goods by the PRC government shall be conducted in such a manner as to facilitate achievement of the goals as set by various economic and social development policies, such as environmental protection and promotion of the growth of small and medium-sized enterprises, and in accordance with either the approved central or local budgets. The thresholds for central budget shall be prescribed by the State Council and that for local budgets. Should there be any change in the economic and social development policies in the PRC or a cut in the central or local budgets, demand from the end-users of the Group's customers may accordingly reduce and lower average selling prices and this may, in turn, affect the sales and the turnover of the Group. To the best knowledge of the Directors, the Directors are not aware of any change in the procurement policies of the end customers of the Group's customers during the Track Record Period.

Fluctuation in prices of raw materials

During the Track Record Period, the Group procured raw materials, parts and components from certain major suppliers for the production of the Group's products and services. The prices of the raw materials are determined from time to time according to the market conditions and supply and demand, therefore resulting in corresponding fluctuations in the production costs of the Group. For the three years ended 31 March 2011 and the seven months ended 31 October 2011, cost of raw materials, parts and components accounted for approximately 68.7%, 76.1%, 61.8% and 60.0% of the total cost of sales of the Group, respectively. During the Track Record Period, raw materials of core components for specialised communication system including cables and plastic materials are vulnerable to fluctuation of prices of copper and crude oil respectively. There is no assurance that the prices of other raw materials will not fluctuate in the future. In the event that the prices of raw materials significantly increase, the business and the profitability of the Group could be adversely affected.

The Group may not be able to sustain a high profit margin

For the three years ended 31 March 2011 and the seven months ended 31 October 2011, the Group achieved gross profit margin of approximately 62.0%, 59.2%, 65.4% and 58.9% respectively. However, there is no assurance that the Group will be able to sustain its high profit margin in the future. In the event that the Group is unable to develop new products with high profit margin or the Group's products are substituted by similar products developed by its competitors, the Group may not be able to sustain its high profit margin.

Any potential sanction imposed against products exported from Israel or other countries where the Group's suppliers are located may affect the growth prospect and financial performance of the Group

During the Track Record Period, the Group has established strategic co-operation with the Israel Satellite Antenna Provider. The Group procured satellite antenna from the Israel Satellite Antenna Provider as one of the core components of the VSAT satellite system. Turnover derived from direct resale of the Israel Satellite Antenna Provider's products for the three years ended 31 March 2011 and the seven months ended 31 October 2011 amounted to approximately nil, HK$4.1 million, HK$6.0 million and HK$6.7 million and accounted for approximately nil, 1.9%, 2.7% and 6.5% of the total turnover of the Group during the relevant years/period, respectively. Due to uncertainty in political relationships amongst the Middle-East countries with the US and the European Union, there is a potential risk that the US and the European Union may impose sanction against products exported from Israel. Sanction against other countries may also be imposed by the US or the European Union. If the customers of the Group are based in the US or the European Union, they may refrain from ordering products of the Group, in particular the VSAT satellite system as it may contain the satellite antenna procured from the Israel Statelite Provider or the suppliers located in countries subject to sanction, or blacklist the Group for a certain period of time as the Group has had business relationship with the Israel Satellite Antenna Provider or the suppliers located in countries subject to sanction. In addition, the Group may have to order the satellite antenna from other suppliers. The Group cannot assure that it will be able to source satellite antenna from alternative suppliers with similar level of performance at acceptable prices or at all. Therefore, such sanction (if any) may adversely affect the growth prospects, financial performance and operation of the Group.

A change in the Group's tax treatment may have a negative impact on the results of its operations

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) implemented on 1 January 2008, a unification of the enterprise income tax rate for domestic-invested and foreign-invested enterprises was fixed at 25% over a five-year transitional period, while "Advanced Technology Enterprises" are subject to 15% EIT rate. In this connection, before having been accredited as "Advanced Technology Enterprise" in the PRC on 6 September 2010, Synertone Soontend was taxable at EIT rates of 18% and 20% for the period from 1 January 2008 to 31 December

2008 and for the period from 1 January 2009 to 31 December 2009 respectively, and was taxable at preferential EIT rate of 15% for the period from 1 January 2010 to 31 October 2011. Synertone Smartend, having been accredited as "Advanced Technology Enterprise"in the PRC on 16 December 2008 and renewed on 31 October 2011, enjoyed a preferential EIT rate of 15% for the period from 1 January 2008 to 31 October 2011. Synertone Smartend and Synertone Soontend will be taxable at the preferential tax rate of 15% for the year ending 31 March 2012. According to the Notification of matters relating to taxation policy concerning technology transfer of enterprises (《關於居民企業技術轉讓有關企業所得稅政策問題的通知》), enterprise will enjoy the preferential tax benefit when the transfer of technology falls into the definition of transfer of patent technologies, patent rights of calculator software, design rights of integrated electric circuit, innovation of plant and medical products or any other technologies recognized by the Financial Bureau and State Bureau of Taxation. The enterprises are also required to have at least five years of rights to exercise globally or full ownership to be entitled to taxation benefits, transfer of technology to be completed by agreement and registered with governmental departments (province level or beyond) according to their nature to be entitled to tax benefits. Synertone Smartend and Synertone Soontend will enjoy the stipulated preferential tax benefit if the relevant transfer of technology fulfills the requirements as stated therein. During the Track Record Period, Synertone Smartend enjoyed such preferential tax benefit for certain transfers of the systems technologies as approved by the relevant tax bureau.

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》), Synertone Smartend and Synertone Soontend are required to pay VAT at a rate of 17%. As both Synertone Smartend and Synertone Soontend had registered their self-manufactured software with the relevant governmental departments, 14% of the VAT on the sales of the registered software and related services would be refunded. Pursuant to the Notification of The State Council relating to further issuance of certain policies concerning the development of software industry and integrated circuit industry (《國務院關於刊發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》) issued on 28 January 2011, the aforesaid preferential policies for Value-added Tax for software will continue to be implemented after 31 December 2010.

Pursuant to the notice regarding relevant tax issues on implementation in strengthening technological innovation, developing high-end technology and industrialisation (關於貫徹落實《中共中央、國務院關於加強技術創新、發展高科技、實現產業化的決定》有關稅收問題的通知) issued on 2 November 1999, entities and individuals are entitled to apply for waiver or reduction of business tax for the transfer and/or development of technology as prescribed therein. During the Track Record Period, Synertone Smartend and Synertone Soontend submitted sales contracts for transfer of the systems technologies to the relevant authorities for approval and enjoyed the waiver and/or refund of business tax for the relevant transfer of the systems technologies.

As the PRC tax authorities granted such preferential tax rates pursuant to their discretionary authority, such preferential tax rates could be modified or cancelled. The Group's profit after taxation and financial position may be materially and adversely affected in the future in the event the preferential tax treatments are modified or cancelled. Any change in the preferential tax treatment in the PRC currently enjoyed by the Group's PRC operations may have a significant negative impact on the results of the Group's operations.

Delay in obtaining approval from the relevant tax authority may cause delay in the Group's issuance of invoice to customers and result in payment delay by customers

To enjoy the business tax benefit relating to the transfer of systems technologies, the Group is required to submit the sales contract for the systems technologies to the relevant authorities for approval and payment invoice shall be issued by the relevant tax bureau according to the notice regarding relevant tax issues on implementation in strengthening technological innovation, developing high-end technology and industrialisation (關於貫徹落實《中共中央、國務院關於加強技術創新、發展高科技、實現產業化的決定》有關稅收問題的通知) issued on 2 November 1999. Any delay in obtaining the payment invoice issued by the relevant tax bureau may result in subsequent delay in the Group passing such payment invoice to its customers for collection of contract sums. There is no assurance that the Group may complete the required approval procedures in a timely manner. Any delay or inability of the Group to pass the payment invoice to its customers for settlement may adversely affect the time for the Group to collect trade receivables and may adversely affect the Group's financial performance and operating cash flows, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Newly launched products of the Group may not be accepted by the market

Apart from the existing products and technologies of the Group, the Group intends to upgrade the existing products and develop and launch newly developed products such as the FITONE digital trunking mobile communication system which is more advanced digital trunking mobile communication system developed by the Group at its preliminary stage of research and development. The Group has developed its own satellite antenna to substitute the satellite antenna sourced from its strategic partners and plans to apply it in the VSAT satellite system. The introduction and/or the upgrade of one or more of the Group's products or services or any products that the Group may plan to introduce in the future may be affected by any technical, operational, distribution or other problems. Also, newly launched products of the Group may not be able to satisfy the requirements or needs of the Group's existing and prospective customers. The Group cannot ensure that any of these products and services will achieve market acceptance or generate revenue.

The key managerial and technical personnel of the Group are critical to its success and if the Group fails to attract or retain such personnel, the ability of the Group to maintain relationships with its customers, develop new products and effectively carry on its research and development and other efforts may be adversely affected

The operation and the future growth of the Group's business is substantially dependent on the efforts and abilities of its senior management and senior technical staff, particularly Mr. Wong Chit On. Under Mr. Wong's leadership, the Group has successfully established its status in the specialised communication industry and its products were used by end-users in the government sector and business enterprises in various industries. The Group's ability to maintain close relationships with its clients is due to their long working history with the Group and the proven success of the Group's products and services. Further, the Group is substantially dependent on its technical, marketing and engineering personnel with a thorough understanding of the business operations of the Group and customer requirements and needs. The Group relies on its skilled research and development department in the development of new products and technologies. The Group has entered into service agreements with each of the executive Directors. Such service agreements have an initial term of three years. In the event the Group loses the services of its key managerial and technical personnel and cannot recruit an appropriate replacement in a timely manner, there may be an adverse effect on the operation, future performance and profitability of the Group.

The Group relies on a limited number of suppliers for certain key components and raw materials

During the Track Record Period, the Group sourced its principal raw materials, parts and components from a number of Independent Third Parties. For the three years ended 31 March 2011 and the seven months ended 31 October 2011, the purchase by the Group from its top five suppliers accounted for approximately 70.8%, 66.5%, 37.7% and 41.3% of the total amount of purchase, respectively. During the Track Record Period, the Group entered into fixed term contract for approximately one to two years with some of its suppliers for the provisions of raw materials, parts and components. The Group cannot assure that such supply contracts will be renewed upon the expiry of its term and the Group cannot assure that it will be able to source raw materials from alternative sources, at acceptable prices or at all, in the event it cannot obtain such materials from its existing suppliers for any reason. Any failure to obtain adequate raw materials, parts or components could interfere with the Group's manufacturing operations and have adverse effect on the operation and turnover of the Group.

Defects in the Group's products or services, systems failures, delays and other problems could harm the reputation and business of the Group, cause the Group to lose customers and expose it to liability

There may be defects in the Group's products or services and the Group may experience failure or interruption to its systems or services or other problems in connection with its operations as a result of various matters, including damage or interruption caused by fire, flood, power loss or power shortages; damage to or failure of the Group's software or hardware or its infrastructure and connections; data processing errors by its systems; the loss or corruption of data; computer viruses or software defects; and security breaches or hackings. If the Group cannot adequately ensure the ability of its systems and services to perform at a consistently high level or if the Group otherwise consistently fails to meet customers' expectations, it may experience damage to its reputation; it may incur liabilities to customers under the contracts which the Group has in place with them; the Group's operating expenses or capital expenditure may increase as a result of remedial action which it is required to take; and/or its customers may reduce its use of its services or seek an alternative service provider. These or any other consequences would adversely affect the revenue and results of operations of the Group.

The Group relies on the PRC market and has a limited operating history

During the Track Record Period, over 90% of the Group's total revenue was derived from the PRC market. The Directors anticipate that the PRC will continue to be a significant production and sales base of the Group in the near future. The Group is therefore susceptible to changes in the economic, political and social conditions of the PRC and there is no assurance that any such change will not adversely affect the future performance and profitability of the Group.

The Group commenced its business of the design, research and development, production and sales of specialised communication network and systems, equipment and related technologies in 2003 and has a relatively limited operating history. It takes time for the Group to establish its reputation under the brand name of "Synertone", to increase market share in the PRC and to expand to overseas market. There is no guarantee that the Group's existing customers or prospective customers will recognise its track record performance when considering whether to use or continue to use the Group's products and services.

Failure to obtain all requisite certificates, permits and licenses in the PRC may adversely affect the business operation of the Group

The Directors and the PRC Legal Advisers confirmed that the Group has obtained all requisite certificates, permits and business licenses from the relevant regulatory authorities in the PRC for its operations, details of which are set out in the paragraph headed "Awards and Certificates" in the section headed "Business" of this prospectus. In the event any of such certificates, permits and business licenses is revoked or not approved for renewal upon expiry, the business operation of the Group could be adversely affected.

The Group has very limited business experience outside the PRC, and it may not be able to achieve its overseas expansion strategy

During the Track Record Period, over 90% of the Group's turnover was generated in the PRC. The Group has very limited business experience outside the PRC. However, the Group intends to explore overseas business opportunities for its products and services, especially in the APAC, Brazil and Turkey.

The Group's experience in operating outside the PRC and with foreign regulatory environments and market practices is very limited, and it cannot guarantee that it will be able to penetrate any overseas market. It may encounter obstacles in connection with its efforts to expand overseas such as keeping abreast of market, business, regulatory and technical developments in foreign jurisdictions, and coping with social instability and other disturbances. Failure to implement the Group's overseas expansion strategy may have a material and adverse effect on its business growth and profitability.

The Group may not be able to accurately evaluate the time and resources necessary for the performance of the Group's services

Product price may vary based on methods of payment, acceptance of new products and relationship between the Group and different customers. Present price charged to customers may not necessarily reflect future price and changes in product price charged to customers may be adverse to the Group's turnover. If the Group fails to evaluate accurately the resources and time required for an engagement, to effectively manage customer expectation or to complete the fixed price engagement in a timely manner and to the customers' satisfaction, the Group may be exposed to cost overruns, damage to reputation and liabilities to its customers, which could have a negative impact on its turnover.

Dividends declared in the past may not be indicative of the dividend policy in the future

For the three years ended 31 March 2011 and the seven months ended 31 October 2011, the Group declared dividends in the amount of approximately HK$52 million, HK$63 million, nil and nil, respectively. Subsequent to 31 October 2011, the Group declared a dividend of HK$27 million for the year ending 31 March 2012. The amount of dividends that the Group has declared and made in the past is not indicative of the dividends that it may pay in the future. A declaration of dividends proposed by the Board and the amount of any dividends will depend on various factors, including, without limitation, the results of operations, financial condition, future prospects of the Group and other factors which the Board may determine as important. For further details of the Group's dividend policy, please refer to the paragraph headed "Dividends" in the section headed "Financial Information" of this prospectus. There is no guarantee that the Group will declare dividends in the future.

The Controlling Shareholder has significant influence over the Group's management and affairs and could exercise this influence against the best interests of other shareholders

Following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Excel Time, the Controlling Shareholder, and Mr. Wong Chit On, the beneficial owner of the entire issued share capital of Excel Time, will beneficially own approximately 67.5% of the issued share capital of the Company. As a result, pursuant to the Articles of Association and applicable laws and regulations, Excel Time and Mr. Wong Chit On will be able to exercise significant influence over the Company. The interests of Excel Time and Mr. Wong Chit On may not always coincide with the best interests of other Shareholders and it will have the ability to exert significant influence over the actions and effect corporate transactions irrespective of the desires of the other Shareholders or Directors.

The Group may not be able to protect its intellectual property rights or may infringe others' intellectual property rights

The Group relies on a combination of copyright, trademark, patent and proprietary technology and contractual restrictions on disclosure imposed on third parties to protect its intellectual property rights. As at the Latest Practicable Date, the Company had registered one trademark both in the PRC and in Hong Kong and owned four patents in the PRC. The Group had also obtained 65 softwares registration certificate with Science, Industry, Trade and Information Technology Commission of Shenzhen Municipality (深圳市科技工貿和信息化委員會) of the PRC. The Group had also applied for the registration of another two patents in China. The Group's efforts to protect its intellectual property rights may not be effective in preventing unauthorised parties from copying or otherwise obtaining and using its intellectual property rights. Monitoring unauthorised use of the Group's technology is difficult and costly, and the Group cannot be certain that the steps it takes will effectively prevent misappropriation and infringement of its intellectual property rights.

Furthermore, it is necessary for the Group to disclose some of its know-how and certain aspects of the application of the proprietary technology and technological secret of the Group to specific employees. During the Track Record Period, the Group has entered into relevant confidentiality agreements/provisions with its employees. The Group is unable to guarantee that all of those currently or previously employed by the Group will maintain confidentiality absolutely and appropriately. The proprietary technology and technological secret of the Company, once leaked, may be taken advantage of by its competitors thereby intensifying the competition facing the Group. Consequently, adverse position in terms of competition and its operational performance and costly litigation may divert management attention and other resources away from the business. An adverse determination in any such litigation will impair the Group's intellectual property rights and may harm the business, prospects and reputation of the Group.

Further, some of the research and development projects of the Group with other entities have the outcomes belonging to or being used by both parties jointly, in particular, the joint development under the Framework Development Agreement and the technology development agreement entered into by the Group and Guangzhou Tian Yi Telecommunication Technology Limited (廣州市天意通訊科技有限公司). Where the Group is unable to cooperate smoothly with the other party in the course of development, it is possible that the outcomes will be affected. In addition, according to the current cooperation agreements, the Group and the relevant party will jointly own the proprietary right in the technology developed. The Group is unable to guarantee that an interest-allocation agreement that is fair and reasonable from the perspective of the Group can always be reached with the other party after successful development of technology. Where the other party disputes over the distribution of the proceeds arising from the application of the intellectual property, the profits of the Group may be adversely affected. From time to time, the Group may have to resort to litigation to enforce its intellectual property rights, which could result in substantial costs and diversion of its resources.

The Group may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the Group, could cause the Group to pay significant damage awards

The Group depends largely on its ability to use and develop its technology know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to the Group's patent rights involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. The Group may be subject to litigation involving claims of violation of intellectual property rights of third parties, even in situations where the Group has not in fact infringed on any third party's intellectual property. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of the Group's technical and management personnel. If adversely determined against the Group in any such litigation or proceedings, the Group could be subject to significant liability to third parties. As a result, the Group may be required to seek licenses from third parties, to pay ongoing royalties and to the patented products. The Group could also be subject to injunctions prohibiting the manufacture and sale of the products or the use of its technologies. Ongoing litigation could also result in the Group's customers or potential customers deferring or limiting its purchase or use of the Group's products until resolution of such litigation.

The continued development of new products and services to cope with customers' requirements will involve the Group's continued research and development effort in respect of the improvement of functionality of its products and the launch of new products to satisfy the requirement of the Group's existing and prospective customers. In the event the Group fails to enhance its research and development capability to improve the existing products or to develop new products to meet the ever changing demands of the customers, or if the Group fails to cope with the latest technology developments, the Group may be surpassed by its competitors and be in an adverse situation, and hence causing adverse impact to the Group's operating results and future developments.

The Group's products and services are designed with significant investment of time and expertise and use of complex technology so that industry and government standards as well as customers' specifications can be adequately addressed. If the Group is unable to continue to meet these standards and specifications, it may be disqualified by its customers in not selecting its products and services. If the Group is unable to maintain the quality and design standards of its products and services, its reputation and relationships with existing and prospective customers may be damaged, which could have a material and adverse effect on the financial results of the Group.

The Group currently does not maintain any product liability insurance for its products, and any significant product liability claim could have a material and adverse effect on its financial condition

The Group currently does not maintain any product liability insurance for its products and has no current plan to effect product liability insurance in the near future. Therefore, any product liability claims against the Group in relation to its products, or any major interruptions of its operations or third-party claims could have a material and adverse effect on its financial condition.

RISKS RELATING TO THE INDUSTRY

Failure to identify and develop new products and services in line with technological changes may have a material adverse effect on the Group's operation and financial conditions

The market for the Group's products and services is characterised by frequent product introductions, rapidly changing technology and continued evolution of new industry standards. The development of technologically advanced products is a complex and uncertain process requiring extensive research and development, high levels of innovation as well as accurate anticipation of technological and market trends. There can be no assurance that the Company's research and development will be able to identify and develop new products and services which effectively meets the market demands in a timely manner. Further, the Group's competitors may introduce new products or product enhancements in advance of the Group and enhance their positions in the industry. In such event, there may be a material adverse effect on the Group's business, operating results and financial conditions.

The Group's products and services encounter intense competition in the market which may lead to reduced price, gross profit and market share

The Group's products and services encounter intense competition. Many of the Group's existing and potential competitors in China and overseas markets have greater financial, technical, research and development and other resources than the Group and may be able to respond more quickly to new technologies and customers' requirement and deploy greater resources to research and development. Further, the accession of China into the World Trade Organization may have intensified the competition faced by the Group. In addition, according to CCID, the potential growth of the specialised telecommunications industry is expected to result in intense competition in the future. Increased competition is likely to result in price reductions, reduced gross profit margins and loss of market share which could have adverse effect on the financial condition of the Group.

Potential inertia of governmental departments to shift from current adopted standards to the standards and technologies developed by the Group

According to CCID, it is often for the relevant government departments already using certain standards of specialised communication system developed and provided by service provider to continuously adopt and apply such standards in its specialised communication system and hence engage the same service provider in future system development, maintenance and upgrading. If some governmental departments or authorities have been engaging a service provider other than the Group and adopting standards of specialised communication system that are different from that provided by the Group, such inertia may hinder the promotion of the Group's business and the Group may not succeed in expanding its customer base and as a result, the Group's operating result and future developments may be adversely affected.

Any unfavourable changes in the regulatory environment may materially and adversely affect the Group's operation and financial performance

The Group's operations and business are subject to various laws and regulations in which regulators' decisions may materially and adversely affect the financial results and operations of the Group. The Group has been providing core components of specialised communication system and has been subject to the relevant laws and regulations such as the Administration Measures for the Control of Pollution caused by Electronic Information Products《電子信息產品污染控制管理辦法》, the PRC Law on Management of Radio Operation《中華人民共和國無綫電管理條例》and Certain Policies on Encouraging the Development of Software Industry and Integrated Circuit Industry《鼓勵軟件產業和集成電路產業發展的若干政策》. In the event there is any changes in law, regulations or government policies in the future, there is no assurance that the Group's business, financial condition and the results of operations will not be materially and adversely affected.

RISKS RELATING TO THE PRC

Changes in the PRC's political, economic and social conditions, laws, regulations and policies may have an adverse effect on the Group

During the Track Record Period, most of the Company's operations were located in the PRC. The PRC economy has traditionally been a planned economy. Over the past two decades, the PRC government implemented economic and political reform measures in the PRC. Such reforms have resulted in significant economic and social advancement. The PRC government continues to play a significant role in regulating industries by imposing industrial policies. Any change in the economic and political situation in the PRC and policies adopted by the PRC government may affect the Group's operations in the PRC and its performance and profitability.

Fluctuations in the exchange rates of the RMB

Changes in the PRC's political and economic conditions have been the main driving force for the recent fluctuations in the exchange rates between the RMB and the Hong Kong dollar, the U.S. dollar and other foreign currencies. In 2005, the implementation of pegging the value of the RMB to the U.S. dollar has been introduced by the PRC government. A basket of currencies is pegged with the RMB, and the People's Bank of China (中國人民銀行) ("PBOC") sets the exchange rate daily based on the previous day's interbank foreign exchange market rates in the PRC and the current exchange rates in the financial markets. On 21 July 2005, the PBOC issued a public notice (中國人民銀行關於完善人民幣滙率形成機制改革的公告) concerning the increase in the exchange rate of the RMB against the U.S. dollar by approximately 2% to RMB8.11 per US$1.00. In late June 2010, the PBOC announced the decision to proceed further with reform of the RMB exchange rate regime thus to improve the RMB exchange rate flexibility. The peg of RMB against US dollars is abandoned and the currency is based on market demand and supply with reference to a basket of currencies and weightings. There is no assurance on additional policy changes in the future and adverse effect which might result loss in the Group's financial condition and daily operation. A further appreciation of the RMB against the U.S. dollar, the HK dollar and other foreign currencies is likely under significant international pressure on a more flexible policy on the PRC government, and thus the Group's cost of production will increase. Subject to the substantial amount of the Group's expenditure being denominated in RMB, any appreciation may result increase in extra costs and devaluation may affect value of the Group's assets, earnings and value of dividends, payable on the Shares in the Hong Kong dollars.

Changes in PRC foreign exchange regulations may adversely affect the Group's business operations

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign exchange out of China. The Group receives a substantial portion of its revenue in RMB. Under the Group's current corporate structure, the Group's income is primarily derived from dividend payments from the PRC subsidiaries. The PRC subsidiaries of the Group must convert their RMB earnings into foreign currency before they may pay cash dividends to the Company or honour their foreign currency denominated obligations. Under the existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required when RMB is converted into foreign currencies and remitted out of China for capital-account transactions, including the repatriation of equity investments in China and the repayment of the principal of loans denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect the ability of the Group to finance its PRC subsidiaries. Subsequent to the Global Offering, the Group has the choice, as permitted by the PRC foreign investment regulations, to invest the net proceeds from the Global Offering in the form of registered capital or a shareholder loan into its PRC subsidiaries to finance its operations in China. The choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, the Group's transfer of funds to subsidiaries in China is subject to approval by PRC governmental authorities in case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by the Group's PRC subsidiaries permit any such shareholder loans. These limitations on the flow of funds between the Company and its PRC subsidiaries could restrict the ability of the Group to act in response to changing market conditions.

The PRC's legal system embodies uncertainties that could adversely affect the business and results of operations of the Group

A substantial portion of the assets of the Group is located in the PRC and a substantial portion of the employees of the Group are PRC citizens. The operations of the Group are therefore subject to the PRC legal system and PRC laws and regulations. Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite the development of the PRC legal system, the legal system of the PRC is still considered to be underdeveloped when compared with the legal systems of some western countries. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

Any new laws or regulations imposing stricter control on environmental protection may cause the Group to incur additional expenses

The Group is required to comply with the environmental protection laws and regulations promulgated by the national and local governments of the PRC. These laws and regulations cover issues including environmental protection regarding construction project and the prescribed standards relating to the discharge of solid waste, liquid waste and gases and the reduction of noise. These regulations also empower local governments to impose penalties on companies which do not comply with the relevant requirements. The Group has established and implemented a set of environmental protection measures in relation to the disposal of solid waste, effluent and gases and the reduction of noise which comply with the regulations. As at the Latest Practicable Date, the Group had not received any notice or warning letter from the Environmental Protection Bureau or other competent authorities alleging any breach of any environmental laws and regulations. However, no assurance can be given that the PRC government will not introduce new laws and regulations which may impose stricter control on environmental protection and the Group may have to incur additional expenses in order to comply with such environmental laws and regulations.

It may be difficult to effect service of process upon the Group or the Directors who live in the PRC or to enforce against the Group or the Directors in the PRC judgments obtained from non-PRC courts

The Company was incorporated in the Cayman Islands. The majority of the Directors are residents of the PRC. A substantial proportion of the Group's assets are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Group or those persons inside the PRC or to enforce against the Group or them in the PRC any judgments obtained from non-PRC courts.

The PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and most other Western countries. It may be difficult for investors to secure recognition and enforcement in the PRC for court judgments obtained in Hong Kong and other jurisdictions and to access the assets of the Group in China in order to enforce judgment or awards entered against the Group outside of China.

The implementation of the new labour contract law and increase in labour costs in the PRC may adversely affect the Group's business and profitability

A new labour contract law became effective on 1 January 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts and dismissal of employees. In addition, under the "Regulations on Paid Annual Leave for Employees" (《職工帶薪年休假期條例》), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from five to 15 days, depending on the length of the employees' length of service. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, the Group's labour costs may increase. There is no assurance that any disputes, work stoppages or strikes will not arise in the future. Increases in the Group's labour costs and future disputes with its employees could adversely affect its business, financial condition or results of operations.

Failure to comply with the SAFE regulations by future shareholders who are PRC residents may adversely affect the business operations of the Group

On 21 October 2005, SAFE issued Circular No. 75, which became effective as at 1 November 2005. According to Circular No. 75 and the related clarifications issued since then, prior registration with the local SAFE branch is required for PRC natural or legal person residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC and raising funds from overseas. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Circular No. 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by 31 March 2006. Some of the ultimate beneficial owners of the Shares are PRC natural persons and therefore, are required to go through the registration procedures set forth under Circular No.75. As advised by the PRC Legal Advisers, such PRC natural persons have completed the registration with the competent authority for foreign exchange registration of overseas investment in accordance with the requirements of Circular No.75. However, the Group may not be fully informed of the identities of all the future Shareholders of the Group who are PRC residents. Moreover, the Group does not have control over the future Shareholders and cannot ensure that all of the future PRC resident beneficial owners of the Group will comply with Circular No.75 for registration or amendment. The failure of such future beneficial Shareholders who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to Circular No.75 or the failure of future Shareholders who are PRC residents to comply with the registration requirements set out in Circular No.75 may subject such beneficial owners and/or the PRC subsidiaries of the Company to fines and legal sanctions. It may also limit the ability of the Group to contribute additional capital to the PRC subsidiaries of the Company, limit the ability of the PRC subsidiaries of the Company to distribute dividends to the Company or otherwise materially and adversely affect the business of the Group.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares, and the liquidity and market price of the Shares may be volatile

Prior to Listing, there has been no public market for the Shares. The Offer Price for the Shares will be agreed between the Sole Global Coordinator (on behalf of the Underwriters) and the Company, and may differ from the market prices for the Shares after Listing. The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. However, there is no assurance that the listing of the Shares on the Stock Exchange will result in the development of an active and liquid public trading market for the Shares. The market price, liquidity and trading volume of the Shares may be volatile. There can be no assurances as to the ability of the holders to sell their Shares or the price at which the Shares can be sold. As a result, the Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which the Shares will be traded include, among other things, variations in the turnover, earnings, cash flows and costs, announcements of new investments, and changes in laws and regulations in China. There is no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past for reason not related to their performance, and it is possible that the Shares may be subject to changes in price not directly related to the Group's performance.

The Group may not be able to achieve its future plans

The future plans of the Group as set out in the section headed "Future Plans and Use of Proceeds" in this prospectus are based on circumstances currently prevailing and the bases and assumptions that certain circumstances will or will not occur, as well as the risks and uncertainties inherent in various stages of development. The Group's future prospects must be considered in light of the risks, expenses and difficulties which may be encountered by the Group in its various stages of development of business. There can be no assurance that the Group will be successful in implementing its strategies or that its strategies, even if implemented, will lead to successful achievement of the Group's objectives. If the Group is not able to implement its strategies effectively, the Group's business operations and financial performance may be adversely affected.

Current volatility in the global financial markets could cause significant fluctuations in the price of the Shares

Financial markets around the world have been experiencing heightened volatility and turmoil since 2008. Upon Listing, the price and trading volume of the Shares will likely be subject to similar market fluctuations which may be unrelated to the Group's operating performance or prospects. Factors that may significantly impact the volatility of the stock price include:

- developments in the business of the Group or in the financial sector generally, including the effect of direct governmental actions in the financial markets;

- the operating and share price performance of companies that investors consider to be comparable to the Group;

- announcements of strategic developments, acquisitions and other material events by the Group or the competitors of the Group; and

- changes in global financial markets, global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of the Shares may decline significantly, and the Group's investors may lose a significant value on their investments.

The laws of the Cayman Islands relating to the protection of interest of minority shareholders are different from those in Hong Kong

The corporate affairs of the Company are governed by the Memorandum of Association, the Articles, the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. These differences may mean that the Company's minority Shareholders may have different protections than they would have under the laws of Hong Kong. A summary of Cayman Islands law on the protection of minority shareholders is set out in "Summary of the constitution of the Company and the Cayman Islands company law" in Appendix IV to this prospectus.

Future sales of substantial amounts of the Shares in the public market could adversely affect the prevailing market price of the Shares

The Shares held by the Controlling Shareholders are subject to certain lock-up periods. Please refer to the section headed "Underwriting" in this prospectus for further information. The Group cannot assure that, after such restrictions expire, the Controlling Shareholders will not dispose of any Shares. Sales of substantial amounts of the Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of the Shares.

The Group's ability to raise capital in the future may be limited, and failure to raise capital when needed could prevent the Group from executing the growth strategy of the Group successfully

The Directors believe that the Group's existing cash and cash equivalents together with the net proceeds from the Global Offering will be sufficient to meet the anticipated cash needs for the next 12 months following Listing. The timing and amount of the working capital and capital expenditure requirements may vary significantly depending on a number of factors, including market acceptance of the products of the Group, the need to adapt to changing technologies and technical requirements, and the existence of opportunities for expansion.

If the Group's capital resources are insufficient to satisfy liquidity requirements in the future, the Group may seek to raise additional funds through the issue of new equity securities or debt securities or obtain debt financing. The issue of additional equity securities or convertible debt securities by the Company other than on a pro-rata basis will result in additional dilution to the shareholding of the Shareholders, and such convertible securities so issued may confer rights and privileges that take priority over those conferred by the Shares. On the other hand, additional debt would result in increased expenses and could result in covenants that would restrict the Group's operations. The Group has not made arrangements to obtain additional financing, and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to the Group, if at all.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain facts and statistics included in this prospectus are derived from official government sources and statistics may not be relied upon

Certain information and statistics contained in the section headed "Industry Overview" of this prospectus has been extracted and derived, in part, from various official government publications and statistics. Whilst reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, neither the Company, nor the Sole Sponsor or the Sole Global Coordinator and the Underwriters, nor any of the Company or their respective affiliates or advisers, nor any party involved in the Global Offering and the Underwriters verified such information and statistics derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information or statistics compiled within or outside China. The Group makes no representation as to the correctness or accuracy of such information and, accordingly, such information should not be unduly relied upon.

In addition, certain information and data contained the section headed "Industry Overview" of this prospectus are derived from market data provided by CCID. The Company believes that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading. However, the information has not been independently verified by the Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. The Group makes no representation as to the correctness or accuracy of such information and, accordingly, such information should not be unduly relied upon.

Forward looking statements may be inaccurate

This prospectus contains certain forward-looking statements and information relating to the Group that are based on the belief of the Directors as well as assumptions based on the information currently available to them. In this prospectus, the words "believe", "consider", "estimate", "expect", and similar expressions, as they relate to the Company or the Group or the Directors, are intended to, among others, identify forward looking statements. Such statements reflect the current views of the Directors with respect to, among others, future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should underlying assumptions are proved to be incorrect, the Group's financial condition may be adversely affected and vary materially from those described herein as believed, considered, estimated or expected.