

## CAUTIONARY NOTE AND RISK FACTORS

### *Cautionary note - forward looking statements*

The Company's website affords access to documents published by the Company (the "**Documents**") which include statements that are, may be or may be deemed to be "forward-looking statements" relating to the Company, its subsidiaries, their respective businesses and prospects. All statements, other than statements of historical fact, included in the Documents regarding the business, financial condition, results of operations and prospects of the Company or any member of the Group and of their respective plans, objectives, assumptions, expectations or beliefs with respect to such matters are, may be or may be deemed to be "forward-looking statements". These "forward-looking statements" include, but are not limited to, statements concerning:

- strategy and the ability of the Company to implement and it and carry it into effect successfully;
- expectations regarding sales, returns, costs, expenses, profitability and growth;
- possible or assumed future results of operations;
- capital expenditure and investment plans;
- adequacy of capital; and
- financing plans.

These "forward-looking statements" are usually identified by the use of words or expressions such as (but not limited to) "seek", "aim", "may", "expect", "anticipate", "believe", "future", "continue", "help", "estimate", "plan", "intend", target, "should", "could", "would", "shall" and similar or comparable terms or the negative, plural or other variations thereof. These "forward-looking statements" also include statements regarding matters that are not historical fact.

These "forward-looking statements" have been based on the current view of the Group's management with respect to future events and financial performance. These views reflect the best judgement of the management of the Group but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in "forward-looking statements" and from past results, performance or achievements.

Although it is the belief of the Company that the estimates reflected and beliefs expressed in the "forward-looking statements" are reasonable, such estimates may prove to be incorrect. By their nature, "forward-looking statements" involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these "forward-looking statements", including, without limitation, the various risk factors identified below. Many of such factors are outside the control of the Company and are difficult to predict and others may at this time be unknown risks, uncertainties or, though known, may be ones that the management of the Group reasonably did not consider to be appropriate to take into account at the time of making the relevant "forward-looking statement".

As a consequence, actual results or events may differ materially from any future results or developments anticipated, expressly or by implication by such statements. Should one or more of the risks or uncertainties associated with such "forward-looking statements" materialise, or should assumptions underlying such "forward-looking statements" prove incorrect, actual results may vary materially from those described in the Documents.

All written and oral "forward-looking statements" attributable to the Company or persons acting on behalf of the Company are hereby expressly qualified in their entirety by this cautionary note. The "forward-looking statements" included in the Documents are made only as of the respective dates of such documents.

## **RISK FACTORS**

### *General*

Investing in equity shares and securities involves a degree of risk. You should carefully consider the risks and the other information contained in the Documents before you decide to invest in the Company. The risks described in this document are not comprehensive of the risks faced by the Company and there may be additional risks that the Directors consider at this time not to be material or of which they are not presently aware.

### *Investment in equity securities*

Shareholders and prospective investors in the Company should be aware that the value of the shares may go up or may go down and that considerable volatility may from time to time be experienced in its share value. Accordingly, investors in the Company's shares may not recover their original investment in full.

### *AIM*

At the date of publication of this document, the issued shares in the capital of the Company are admitted to the official list of the United Kingdom Listing Authority (the "**Official List**") and are traded on the London Stock Exchange's ("**LSE**") regulated market for listed securities. It is anticipated that, with effect from 2 December 2005, the Company's shares will no longer be admitted to the Official List or trade on the LSE's regulated market for listed securities.

Application has been made for admission of the Company's shares to trading on the London Stock Exchange's Alternative Investment Market ("**AIM**") with effect from 2 December 2005.

AIM is a market designed, primarily, for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority. AIM is not a regulated market. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The LSE has not itself examined or approved the contents of this document or the Documents.

Admission to AIM should not be taken as to imply that there will be a liquid market in the Company's shares.

### *Requirement(s) for additional capital*

The Group's capital requirements depend on a number of factors, including the rate of technological development in its markets, acceptance of its products and its ability to maintain and expand its customer base. If its capital requirements and/or resources vary materially from its current anticipated levels, the Group may require further financing. Any additional equity financing will be dilutive. Debt financing, if available, may involve restrictions being placed on the Group and may affect the ability of the Group to maintain its dividend record. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on terms favourable to it. If the Group is unable to obtain additional financing as needed, the Group may be required to reduce the scope of its operations or to cease trading.

Furthermore, the Group finances much of its working capital requirements from factoring and letters of credit. Whilst current levels of such facilities are considered sufficient for the current and projected requirements of the Group, a fall in sales will reduce the availability of facilities through factoring and a loss of any of the letter of credit facilities available to the Group at this time could have a material adverse effect upon the Group's business, financial condition, results of operations and/or prospects.

#### *Currency exchange and interest risk*

Fluctuations in exchange rates, which can sometimes be highly volatile, between currencies in which the Group operates (principally the US Dollar, the Hong Kong Dollar and the Euro) relative to the pound sterling may cause fluctuations in its financial results. The Group cannot predict, has no control over and may not be able adequately and cost effectively to protect itself or hedge against the effect of such exchange rate fluctuations. Further, material increases in interest rates may increase the cost to the Group of the facilities utilised by it for the provision of much of its working capital. Such fluctuations and increases could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

#### *Key personnel*

The Group's success depends to a significant extent upon a limited number of key employees. The loss of one or more key employees could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group. Whilst the Company has in place "key man" insurance for certain of these key employees and has put in place measures to motivate, incentivise and retain such employees, there is no assurance that such insurance cover will be sufficient to compensate the Company fully in the event of the death, severe illness or disability of any such employee or that the Group will otherwise be able to retain such employees.

#### *Competition in the Group's markets*

The Group may face significant competition, both actual and potential, including competition from competitors with greater capital resources than those of the Group. One or more of these competitors may be able to provide products and services which are more effective, economically viable or advanced than those provided by the Group or may adopt an aggressive pricing policy. In order to remain competitive or retain, regain, or build its market share, the Group may need to lower prices or offer more favourable terms to its customers. Any such action by the Group would be likely to reduce the Group's margins and could adversely affect the Group's operating results.

#### *Intellectual property matters*

The Group places considerable reliance upon its ability to negotiate, obtain, retain and/or renew licences to exploit the intellectual property rights of third parties, particularly trade marks and copyright works, in all its operating divisions. Such reliance has been appreciably reduced in recent years through the development of in-house branded product ranges in all the Group's divisions, but licensed product ranges incorporating the intellectual property of third parties will continue to constitute a substantial part of the products manufactured, distributed and/or sold by the Group going forward. The loss of a licence or the failure to secure or renew an important licence going forward (on commercially acceptable terms or at all) could have a material adverse effect upon the Group. In particular, there is no assurance that the current contractual negotiations for the continued involvement by the Group in the design and production of the Polaroid® range of digital cameras will be concluded satisfactorily or at all.

It is a feature of many licence agreements that non-returnable but recoupable advance payments of licence fees are made by the Group or that minimum guarantees are given by the Group in respect of licence fees payable to the third party owner of the intellectual property concerned. There is no guarantee that the Group will realise sufficient sales of the relevant products to recoup such advances and/or meet such minimum guarantees and any such failure may have a material adverse impact upon the Group.

The Group may be the subject of claims from third parties that the Group's products incorporate the intellectual property rights of such third parties and infringes the rights of such third parties. There may be a prospect of litigation to resolve issues arising with such claimants and a determination of any such claim against the Group could give rise to liabilities for which no provision has been made. Further, even where such claim is ill-founded, the defence of such claim could be costly and a time consuming distraction for the management of the Group which, in addition, may affect their ability to effectively manage the day to day operations of the Group.

Third parties may make infringing use of the Group's intellectual property rights or of the intellectual property rights licensed to it or otherwise exclusively enjoyed by it under distribution arrangements agreed with the made of such intellectual property. In particular, the effect on sales of the Group's products could be affected by the distribution of competing, counterfeit product in the Group's important territories for distribution. Action taken to restrain any such infringing use of intellectual property rights enjoyed by the Group can be costly, time-consuming and with no guarantee of success.

The effect of any one or more of these factors could have a material adverse effect upon the Group's business, financial condition, results of operations and/or prospects.

#### *Third party manufacturers and suppliers*

The Group subcontracts manufacturing of its digital and certain other of its products to a manufacturers in the Far East. The failure of these manufacturers to manufacture to specification and produce good quality products in a timely fashion and to maintain and/or update their facilities, could delay the Group's ability to deliver products to its customers and/or result in lost sales and/or penalties being imposed by its customers.

Further, many sophisticated components are required to be incorporated in the Group's products, particularly the digital and electronic items distributed by the Group. Shortages of such components do occur from time to time and this may also give rise to delays in the Group's ability to deliver products to its customers and/or result in lost sales and/or penalties being imposed by its customers

Whilst the Group would seek to source alternative means of production (where appropriate), delays could be cause that would not mitigate these adverse effects.

The effect of any one or more of these factors could have a material adverse effect upon the Group's business, financial condition, results of operations and/or prospects.

#### *Economic developments*

The Group markets, distributes and/or sells a number of its products in over 30 territories throughout the world. Economic and/or geographical conditions, including (without limitation) inter-state trade disputes, terrorist activity, insurrection and civil unrest, pandemic disease and infection and natural disasters affecting any of its key territories for distribution (principally North America, Europe and the Far East) are beyond the Group's control. Any one or more of these factors affecting any one or more of such territories could have a

material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Changes in legislation*

Any future changes which are made in legislation or regulations, including (without limitation) in relation to taxation, applicable safety and other standards to which its products are subject, could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Disruptive technological change*

The markets for certain of the Group's products, particularly its digital products, are rapidly evolving markets and advances in technical developments that may not be available for use by the Group may take place and may render certain of the Group's current and planned products obsolete and unmarketable and/or may have an adverse effect on the pricing thereof. No guarantee can be given that the Group will successfully develop new products to compete with such technologies or that any products so developed by the Group will achieve market acceptance. If the Group is unable to develop products that are competitive in terms of technology and price and that meet consumer demand, this could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Product defects/recall*

A material quantity of the Group's products may be found or alleged to contain defects. The Group may not discover such defects or errors until after such products have been put in distribution or sold. Defects in the Group's products could materially and adversely affect the Group's reputation and impair its ability to sell its products in the future. The costs incurred in recalling, eliminating any product defects or replacing such products may be substantial. Whilst the Group operates strict quality assurance and control procedures to minimise this risk, defects may be found or alleged to exist in the Group's products in the future and this could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.