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OVERVIEW

We are the largest company in terms of number of employees (238 as at the Latest Practicable Date) and revenue (approximately HK\$555.8 million for the year ended 31 December 2008) out of 42 participants that participated in the HKUST Entrepreneurship Program, and would be the first to attain a listing status at the completion of the [●]. We specialize in providing embedded firmware and "end-to-end" turnkey solutions to our customers for their DSP-based "life-style" consumer electronic devices. End products which utilize our technologies include (i) well-being and fitness devices which are digital audio players featuring biometric measurement functions; (ii) personal portable entertainment devices, such as personal multimedia player and digital audio player; and (iii) "life-style" consumer electronic devices such as mobile phones, digital photo frames, digital mobile televisions and netbook computers. Our five largest customers include group companies of leading international brand name vendors and group companies which are either on the Fortune Global 500 or Fortune 500 lists which together, accounted for 76.4%, 97.4% and 91.3% of our total revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. During the Track Record Period, more than 14.2 million consumer electronic devices which utilized our technologies had been shipped.

We engage in design supply chain management. Our turnkey solutions cover the following services: concept consultation, technology feasibility study, embedded firmware, software, hardware, mechanical and industrial design and development, intellectual property research, material and component sourcing, packaging design, manufacturing, packaging, quality management, shipping, logistic management and after-sales support. We outsource certain process along the design supply chain, such as manufacturing, packaging, shipping and after-sales services to our subcontracting OEMs and third party services providers. Such arrangement enables us to deliver the finished products to our customers without incurring the fixed costs for operating any manufacturing facilities. We manage the quality of our products and solutions through our engineering team and quality assurance team, which oversee the entire supply chain, ensuring that the products and solutions we deliver would meet the requirements and specifications of our customers. Our business model also allows us to leverage on our core technologies in DSP-based firmware and algorithms across a wide span of product categories with relatively low overhead when compared with traditional manufacturers. By doing so, we can focus our resources on our core competence, namely the final design of products, road map planning, technology selection, component verification and intellectual property research.

We emphasize on research and development of information technology. Led by Dr. Lau, our Chairman and CEO, we had a research and development team of over 104 staffs in total in Hong Kong and Shenzhen, the PRC as at the Latest Practicable Date. While we focus on developing embedded firmware and software applications used in our products, we also collaborate with IC manufacturers to modify and enhance the Embedded Operating Systems to be used in our products. By enhancing the Embedded Operating Systems, we aim at enhancing the performance of the IC supplied by the IC manufacturers. We also work with our customers on their road map for future products and technologies, aiming at assisting our customers to achieve a faster product development time.

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We strive for innovation and invention. Since our incorporation in 1999, we have developed various consumer electronic products which we consider to be innovative at their respective launch time, such as digital recordable jukebox (2000), one-inch hard disk drive MP3 players (2004), well-being and fitness products (2009) and we applied for the patents for the respective products. As at the Latest Practicable Date, we had filed 41 patents in the US, the PRC and EU for the designs and technologies we have developed, and out of which 16 had been successfully granted to us. We endeavor to develop new products utilizing new technologies. Recently, we are in the process of developing Android-based electronic devices, as detailed in the section headed "Future plans and prospects" in this document.

Our consumer electronic products are characterized by their low power consumption, Internet connectivity, multiple functionality, and flexible manufacturing process. We consider that this is achieved by our technological know-how to develop firmware and software to optimize the performance of the ICs, as well as our ability to successfully introduce new features and functions into our products. Our products currently support various technologies, including but not limited to:

Wireless

Bluetooth (AVRCP, A2DP)

WiFi-wireless network 802.11b/g/n

Multimedia content

YouTube video clip download

Rhapsody-ready

DRM (Napster-to-go, audible book, BBC iplayer)

Audio and video

Active noise cancellation

Voice prompt

DSP

Humming search

Biometric

Three-axis G-sensor control accelerometer to detect distinct motions

Heart rate monitoring via near-field infra-red signal

Device user interface

Android

OneUX UI system

Broadcasting

Multiple digital broadcasting standards (such as OneSEG)

Web2.0

Facebook connectivity

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We have applied for patents in respect of certain technologies, such as the three-axis G-sensor control accelerometer and heart rate monitoring via near-field infra-red signal. For details, please refer to the paragraph headed "Intellectual properties" in the section headed "Business" in this document.

Since our establishment, we have received numerous industrial awards as a recognition of our technological achievement and product design, including the Consumer Product Design Award, Certificate of Merit in Consumer Product Design and Certificate of Merit in Technological Achievement among the 2006 Hong Kong Awards for Industries from the Federation of Hong Kong Industries in 2006; the Consumer Product Design Certificate of Merit among the 2007 Hong Kong Awards for Industries from the Federation of Hong Kong Industries in 2007 and the HKEIA Award for Outstanding Innovation and Technology Products in 2007 and the Grand Award of the HKEIA Award for Outstanding Innovation and Technology Products in 2009.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, we recorded revenues of approximately HK\$616.7 million, HK\$555.8 million and HK\$147.7 million, respectively and gross profit of approximately HK\$122.7 million, HK\$95.3 million and HK\$30.3 million, respectively. Our net profits for the two years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK\$30.8 million, HK\$8.2 million and HK\$3.7 million, respectively.

Our business arrangement saw a significant change in 2008. In March 2008, one of our key subcontracting OEMs closed down its business abruptly. With no subcontracting OEMs which were approved by our largest customer immediately available, we, as an interim measure instead of providing "end-to-end" turnkey solutions and delivering finished products, subcontracted certain processes, such as the manufacturing of PCBA to another subcontracting OEM and delivered semi-finished products and components to our largest customer for its further assembly, while we continued focusing on the provision of embedded firmware and applications to our customers. Therefore, since April 2008 and up to the end of year 2008, a majority of the revenue from sale of products was attributable to sales of raw materials and components. As the average selling price of semi-finished products and components was relatively lower than that for finished products, the change of arrangement is also part of the reason for the decrease in revenue in 2008. In January 2009, we assisted one subcontracting OEM in obtaining the approval of our largest customer and we were able to resume provision of "end-to-end" solutions and finished products to our largest customer, which resulted in the substantial increase in the sales of finished products as a percentage of total sales of products. There had been no claim from our customers due to the closure of the key subcontracting OEM. Following such an incident in 2008, we have adopted a policy of maintaining at least two subcontracting OEMs which are approved by our key customers, in order to reduce our reliance on a single subcontracting OEM.

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OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are the key factors to our success and will enable us to grow our business in the future:

- Our research and development capability
- Our design supply chain management business model
- Our relationship with HKUST
- The experience and expertise of our senior management
- Our relationship with IC manufacturers
- Our customers are worldwide leading and renowned

OUR STRATEGIES AND BUSINESS OBJECTIVES

Our objective is to enhance the return to our Shareholders through exploiting our competitive advantages to grow further with an aim to becoming a leading consumer electronics solution provider specializing in multimedia and Internet connectivity and well-being technologies. To achieve the above, we intend to implement the following strategies:

- Product and technology development
 - Further development of our "Live-Lite" well-being and fitness products
 - Enhancing Web 2.0 features on our products
 - Open source-based devices
 - Development of netbook computer solutions
- Broadening our market coverage and expansion of our sales network
- Enhancing our research and development capability
- Possible merger and acquisition opportunities

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SUMMARY FINANCIAL INFORMATION

The following is a summary of our Group's combined results for the two years ended 31 December 2008 and the six months ended 30 June 2008 and 2009, which are derived from the Accountants' Report set out in Appendix I to this document. The summary financial data should be read in conjunction with the combined financial information in the Accountants' Report set out in Appendix I to this document.

Combined income statements

	Year ended 31 December		Six months ended 30 June	
	2007	2008	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Revenue	616,738	555,780	165,660	147,737
Cost of sales	<u>(493,990)</u>	<u>(460,446)</u>	<u>(129,333)</u>	<u>(117,425)</u>
Gross profit	122,748	95,334	36,327	30,312
Other income	729	583	477	12
Research and development costs	(24,362)	(26,274)	(12,212)	(7,001)
Selling and distribution costs	(18,080)	(15,556)	(6,385)	(5,603)
General and administrative expenses	(26,078)	(31,978)	(16,186)	(12,217)
Other expenses, net	(3,871)	(4,604)	(1,081)	(431)
Finance costs	<u>(11,232)</u>	<u>(4,822)</u>	<u>(2,654)</u>	<u>(2,057)</u>
Profit/(loss) before tax	39,854	12,683	(1,714)	3,015
Tax	<u>(9,068)</u>	<u>(4,520)</u>	<u>(274)</u>	<u>670</u>
Profit/(loss) for the year/period attributable to equity holders of the Company	<u>30,786</u>	<u>8,163</u>	<u>(1,988)</u>	<u>3,685</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share attributable to equity holders of the Company				
– Basic	<u>5.1</u>	<u>1.4</u>	<u>(0.3)</u>	<u>0.6</u>
– Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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Combined statements of comprehensive income

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$ (unaudited)	2009 HK\$
Profit/(loss) for the year/period attributable to equity holders of the Company	30,786,308	8,162,680	(1,988,239)	3,685,397
Other comprehensive income:				
Exchange differences on translation of foreign operations	135,924	886,002	695,681	–
Total comprehensive income/(loss) for the year/period attributable to equity holders of the Company	<u>30,922,232</u>	<u>9,048,682</u>	<u>(1,292,558)</u>	<u>3,685,397</u>

Selected combined statements of financial position data

	As at 31 December		As at
	2007 HK\$	2008 HK\$	30 June 2009 HK\$
Assets			
Current assets	274,358,328	231,333,556	146,512,684
Non-current assets	10,675,382	10,538,783	12,471,553
Equities and liabilities			
Current liabilities	329,490,476	277,280,423	190,706,924
Non-current liability	<u>525,620</u>	<u>525,620</u>	<u>525,620</u>
Total equity	<u>(44,982,386)</u>	<u>(35,933,704)</u>	<u>(32,248,307)</u>

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Selected combined statements of cash flows data

	Year ended 31 December		Six months ended 30 June	
	2007 HK\$	2008 HK\$	2008 HK\$	2009 HK\$
Net cash inflow/(outflow) from operating activities	22,508,593	29,082,710	(7,718,398)	19,839,658
Net cash outflow from investing activities	(6,163,710)	(19,468,399)	(4,655,134)	(4,144,321)
Net cash inflow/(outflow) from financing activities	<u>10,982,785</u>	<u>(27,794,738)</u>	<u>(20,494,439)</u>	<u>(13,904,805)</u>
Net increase/(decrease) in cash and cash equivalents	27,327,668	(18,180,427)	(32,867,971)	1,790,532
Cash and cash equivalents at beginning of year/period	(4,964,701)	22,366,078	22,366,078	4,655,224
Effect of foreign exchange rate changes, net	<u>3,111</u>	<u>469,573</u>	<u>680,314</u>	<u>-</u>
Cash and cash equivalents at end of year/period	<u><u>22,366,078</u></u>	<u><u>4,655,224</u></u>	<u><u>(9,821,579)</u></u>	<u><u>6,445,756</u></u>

Our results may fluctuate from period to period due to a number of factors, including but not limited to the global demand for our solutions and products, the types of services we provide, our product mix, seasonality factors and capitalization and amortization of research and development costs incurred for its development projects.

Working capital

The table below sets forth our current assets and liabilities as at end of the respective reporting periods:

	As at 31 December		As at
	2007 HK\$	2008 HK\$	30 June 2009 HK\$
Current assets	274,358,328	231,333,556	146,512,684
Current liabilities	<u>329,490,476</u>	<u>277,280,423</u>	<u>190,706,924</u>
Net current liabilities	<u><u>(55,132,148)</u></u>	<u><u>(45,946,867)</u></u>	<u><u>(44,194,240)</u></u>

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We recorded combined net liabilities positions for most of the financial years/periods since 2002, partly as a result of the significant investments we made in research and development which generated limited amount of revenues in our Group's initial years of operations. Furthermore, we mainly engage in the provision of embedded firmware and turnkey solutions without operating any manufacturing facilities, while outsourcing processes such as manufacturing, packaging and shipping to subcontractors, we do not require a heavy asset base to support our operations. Historically, our operations had been mainly supported by short term bank loans and banking facilities and loans from our shareholder and/or related parties, thereby resulting in our net liabilities and net current liabilities positions. Our Group's operation and financial positions have significantly improved since 2007, which resulted in decreases in our net liabilities and net current liabilities positions. Our Directors believe that after taking into account the financial resources available to us, including our available credit facilities and internally generated funds, and the estimated [●] of the [●], we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this document. Please refer to the paragraphs headed "Net current liabilities", "Inventory analysis", "Trade and bills receivables" and "Trade payables analysis" in the section headed "Financial information" in this document for more details about our working capital.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Our Directors believe that, in the absence of unforeseen circumstances and based on the assumptions as set out in the section headed "Profit forecast" in Appendix III to this document, our profit after tax for the year ending 31 December 2009 is unlikely to be less than HK\$25 million. On the basis of the prospective financial information and the weighted average number of Shares expected to be issued and outstanding during the current year of 600,000,000 Shares, the forecast earnings per Share on a weighted average basis for the year ending 31 December 2009 is unlikely to be less than HK4.17 cents.

The substantial increase in the forecast profits after tax for the year ending 31 December 2009 when compared with that for the year ended 31 December 2008 is mainly attributable to the expected decrease in the research and development costs charged to the income statement as a result of the increase in capitalization of the research and development costs and the expected decrease in other operating expenses following the implementation of certain cost control measures in the first half of 2009.

RISK FACTORS

Risks relating to our business

- We recorded net current liabilities positions as at 31 December 2007, 31 December 2008 and 30 June 2009
- We rely on the manufacturing support provided by subcontractors. Any failure in or interruption of the business of the subcontractors will adversely affect our results of operations
- We are highly dependent on a limited number of our key customers for a significant portion of our revenues, and we anticipate such dependence to continue in the near future

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- Our operating results may fluctuate from period to period due to seasonality in our orders from customers
- Our operating results may fluctuate from period to period depending on the fulfillment of the capitalization criteria in respect of direct development expenditures incurred for our development projects
- Our operating results may fluctuate from period to period due to other factors
- Our research and development project may not be successful and we may not be able to develop new products requested by our customers
- We will need to invest significant financial and managerial resources in research and development to maintain our market position, keep pace with technological advances and compete effectively in the consumer electronics industry
- We rely on our IC manufacturers for access to the latest IC technologies
- We may be adversely affected by product liability exposure claims
- We rely on our intellectual property, the failure to protect of which may affect our ability to compete
- We may be involved in litigation disputes over intellectual property
- Failure to retain key personnel and skilled employees could adversely affect our operations
- Our Group is exposed to concentration of credit risk
- We may be exposed to inventory obsolescence risk
- We may be unable to secure additional funding on acceptable commercial terms to implement our business plans in the future
- Fluctuations in exchange rates could adversely affect our business
- We are licensed by some of our suppliers to install their DRM technologies on our products and our failure to safeguard such licensed DRM technologies will subject our Group to litigation and liabilities for breach of the relevant licenses

Risks relating to our industry

- Our business depends on adequate supplies of raw materials at prices acceptable to us
- We operate in a highly competitive industry

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- Demand for services in our industry could be volatile and depends upon the performance of our customers
- We operate in a rapidly-changing technology environment
- Our industry is dependent on the strong and continuous growth of outsourcing in consumer electronic products

Risks relating to the PRC

- New labor laws in the PRC may materially and adversely affect our results of operations
- The new tax laws subject us to a withholding tax at a rate of 10%
- Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government may adversely affect our business, growth strategies, financial condition and results of operations
- The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those offered in other jurisdictions

Risks relating to the global economic downturn

Risks relating to statement made in this document

- Certain facts and other statistics in this document are derived from various official government sources and may not be reliable