RISKS RELATING TO OUR BUSINESS

We recorded net current liabilities positions as at 31 December 2007, 31 December 2008 and 30 June 2009

As at 31 December 2007, 31 December 2008 and 30 June 2009, we had net current liabilities of HK$55.1 million, HK$45.9 million and HK$44.2 million, respectively, which primarily resulted from the interest-bearing bank borrowings and loans from related parties. We had net operating cash inflow of HK$22.5 million, HK$29.1 millon and HK$19.8 million for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. The net operating cash inflow during these periods was primarily because of the operating profits generated during these periods. We may continue to have net current liabilities in the future. Our net current liabilities position exposes us to certain liquidity risks. Our future liquidity, the payment of trade and other payables, and the repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Our operating cash flows could be adversely affected by numerous factors, including increased market competition, decreased demand for our products and higher raw material prices. Servicing our debt and other fixed payment obligations will further divert our cash flow from our operations and planned capital expenditures.

We cannot assure you that we will not experience liquidity problems in the future. If we fail to generate sufficient revenues from our operations, or if we fail to maintain sufficient cash and financing, we may not have sufficient cash flows to fund our operations and our business and our results of operations and financial condition may be materially and adversely affected. In addition, should our outstanding debt obligations be called on demand by our lenders, thereby becoming immediately due and payable, our working capital position may be materially and adversely affected and we may not be able to procure alternative sources of liquidity to fund our working capital needs. Furthermore, the interest cost of our debt obligations could impair our future profitability. For details of our cash flow and our net current liabilities, please refer to the paragraphs headed "Liquidity and capital resources" and "Net current liabilities" in the section headed "Financial information" in this document. Please also refer to the paragraphs headed "Inventory analysis", "Trade and bills receivables", "Trade payables analysis" in the section headed "Financial information" in this document for more details about our working capital.

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

Our products are manufactured under the subcontracting arrangements. Pursuant to the terms of the contracts entered into between our subcontracting OEMs and us, the termination of the contracts is subject to a three-month prior notice period. In the event that any of the subcontracting arrangements is terminated prior to its expiry, the relevant processing factories will cease to process the relevant raw materials or components for us. This may cause a material adverse impact on the results of our operations.

Furthermore, the subcontracting arrangements carry with the risks associated with the possibility that the relevant subcontracting OEMs may (i) have economic or business interests or goals that are inconsistent with ours; (ii) take actions contrary to our instructions or requests, or contrary to our policies or objectives; (iii) be unable or unwilling to fulfill their obligations under the relevant subcontracting arrangements; or (iv) have financial difficulties. In 2008, one of our major subcontracting OEMs went out of business and we lacked the capacity to provide our customers with “end-to-end” solutions during April to December 2008. As an interim measure, we subcontracted certain processes to another subcontracting OEM, while instead of providing ”end-to-end” solutions, we delivered semi-finished products and components to our customers for their further assembly, and we continued focusing on the design and development of embedded firmware and applications. For details, please refer to the paragraph headed “Suppliers, raw materials and components” in the section headed “Business” in this document. There is no assurance that we will not experience similar or other problems with our subcontracting arrangements in the future. The occurrence of such problems may have an adverse effect on our business and prospects.

Our subcontracting OEMs are responsible for the operation and management of the processing factories. Under the terms of the contracts entered into between our subcontracting OEMs and us, our subcontracting OEMs are responsible for a number of responsibilities and potential liabilities, including but not limited to employment of workers and management personnel for operation and compliance with all applicable local rules and regulations.

As we do not own or control the processing factories run by our subcontracting OEMs, we cannot assure you that they are and will be in compliance with the applicable laws of the PRC and do not and will not experience problems with their employees. Since the production processes at the processing factories are not fully automated and still rely to a large extent on manual operations, strikes, agitations, work stoppages or boycotts could result in slow-downs or closures of the production facilities and adversely affect our business and 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

We provide turnkey solutions for consumer electronic devices. Our products are sold to various markets worldwide, including the United States and Europe and mostly to leading international brand name vendors and manufacturers of consumer electronic products and health care devices, as well as to OEMs. We are highly dependent on leading international brand name customers, who are independent of us, for a substantial portion of our total sales. For the two years ended 31 December 2008 and the six months ended 30 June 2009, our combined sales to our five largest customers were approximately HK$471 million, HK$541 million and HK$135 million, respectively, accounting for approximately 76.4%, 97.4% and 91.3%, respectively, of our revenue. Our revenue from the largest customer accounted for approximately 36.8%, 82.4% and 73.9% of our total revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our five largest customers during the Track Record Period include group companies of one of the top five brands in terms of PMP/MP3 markets worldwide, one of the largest media and entertainment conglomerates in the world, leading retailers in the US, one of the largest home appliance and consumer electronics vendors in the PRC, OEM manufacturers in the PRC, and other electronic products trading and distribution companies. During the two years ended 31 December 2008 and the six months ended 30 June 2009, the total numbers of our customers were 88, 62 and 36, respectively, and 50 of which were recurring customers in any two of the said financial periods. We could have difficulty securing comparable levels of business from other customers to offset any loss of revenue from losing any of these customers. If any of our key customers suspends purchases or delays payments, our cash flow and profitability could also be adversely impacted.

Our operating results may fluctuate from period to period due to seasonality in our orders from customers

Our revenue has been affected by the seasonality of the orders we receive. We generally receive more orders in the second half of a calendar year, and in particular the fourth quarter, than in the first and second quarters of the year. Our revenue for the six months ended 31 December 2007 and the six months ended 31 December 2008 accounted for 79.7% and 70.2% of our total revenue for the years ended 31 December 2007 and 31 December 2008, respectively. Any decrease in our sales during the third quarter and/or the fourth quarter of a year will materially and adversely impact our operating results for such year.

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

Research and development costs (excluding deferred expenditure amortized) represented 4.0%, 4.7% and 4.7% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Based on our accounting policy, research and development costs can be capitalized and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. At the end of each reporting period, we would critically assess the fulfillment of the above capitalization criteria in respect of direct development expenditures incurred for each of our development projects. If our research and development costs fail to satisfy such capitalization criteria, our results of operations will be materially and adversely affected. If more development costs are capitalized, more capitalized development costs will be subject to amortization under straight-line basis over the commercial lives of the underlying products. Our results of operations will also be adversely affected by such increase in amortization of deferred development costs in the corresponding subsequent financial periods.

Our operating results may fluctuate from period to period due to other factors

There is a risk that our operating results may fluctuate significantly due to factors other than capitalization of research and development costs and seasonality. Some of such other factors affecting our operating results include:

- changes in technology;
- changes in demand for our products and services;
- our customers' sales outlook, purchasing patterns and inventory adjustments;
- the mix of the types of services we provide to our customers, as the volume of products, complexity of services and product maturity generally affect our margins;
- the extent to which we can provide vertically integrated services for a product;
- changes in the cost and availability of labor, raw materials and components, which often occur in the consumer electronics industry and which affect our margins and our ability to meet delivery schedules;
- our ability to manage the timing of our component purchases so that components are available when needed for production, while avoiding the risks of accumulating inventory in excess of immediate production needs;
- any decrease in royalty income will negatively impact our gross profit margin and net profit because royalty income has a very high gross profit margin;
- timing of new technology development and the qualification of our technology by our customers;
- our ability to obtain financing in a timely manner; and
- local conditions and events that may affect our production volumes, such as labor conditions, political instability and local holidays.

Due to the factors noted above and other risks discussed in this section, many of which are outside our control, our operating results may fluctuate from period to period. As a result, our Share price may be volatile and may not always accurately represent the longer-term value of our Company.

Our research and development project may not be successful and we may not be able to develop new products requested by our customers

We are continually evaluating new production processes as we believe that our future success will depend in part upon our ability to help our customers develop and market new products, maintain technological leadership and successfully anticipate technological changes in a cost-effective manner and on a timely basis. We cooperate, and intend to continue cooperating, with leading customers in our industry to engage in research and development activities so that our customers can remain at the forefront of technological developments in the consumer electronics industry. There is a risk that as consumer electronics become more technologically complex, we may have difficulty developing new production processes for new products or we may have difficulty developing new production processes which maintain a high level of product quality. Our inability to successfully develop new production processes may limit our competitiveness and adversely affect our financial condition and results of operations.

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 constantly keep abreast of the latest technological developments in the consumer electronics industry. We believe our commitment to research and development distinguishes us from other software companies as it enables us to compete in terms of technological advancement instead of solely on pricing. We intend to recruit and train more research and development staff, in particular in well-being and fitness product solutions. At the same time, we will explore opportunities to collaborate with universities and other research institutions in Hong Kong and overseas to further strengthen our research and development capabilities. Failure to invest significant financial and managerial resources in the enhancement of our research and development capabilities could result in a decline in our market position and adversely affect our financial condition and results of operations.

We rely on our IC manufacturers for access to the latest IC technologies

Enhancing our process technologies is critical to our ability to provide high quality services for our customers. We intend to continue to advance our process technologies through internal research and development efforts and technology alliances with other companies. We have established long term relationships with international IC manufacturers. Pursuant to such relationship, we are allowed to have access to the SDKs and source codes of their respective operating systems, thereby allowing us to modify the Embedded Operating Systems with these IC manufacturers to support different devices and applications in order to meet the specific requirements of our customers. We also work closely with these IC manufacturers to optimize the operating systems of their ICs, with the aim of developing more advanced products which may feature lower power consumption, shorter signal processing time, better multi-tasking ability, and so on. In addition, having a close relationship with these IC manufacturers allows us to keep abreast of the latest developments in IC technology as we are often informed of the product road maps of these IC manufacturers, providing us a competitive edge over our competitors in terms of technological advancement.

We depend in part upon our IC suppliers for access to the latest IC technologies. If our IC suppliers fail to keep up with the latest technologies, or if we are unable to continue our technology alliances with these entities, or are unable to enter into new technology alliances with other leading developers of IC technology, we may not be able to continue providing our customers with leading edge process technology, which would adversely affect our business and results of operations.

We may be adversely affected by product liability exposure claims

Our products are manufactured under the subcontracting arrangements. Under the terms of the contracts entered into between our subcontracting OEMs and us, our subcontracting OEMs are responsible for sourcing most of the raw materials and components used by them. We cannot be certain that the steps we have taken or will take to control the quality of raw materials and components used by our subcontracting OEMs will meet our quality standard. Accordingly, we face an inherent risk of exposure to product liability claims in the event that the quality of raw materials and components used by our subcontracting OEMs fail to meet our quality standard which renders the failure of our products to perform to specification results, or is alleged to result, in property damage, bodily injury or death.

Our financial condition and results of operations would be adversely affected if our product liability insurance does not cover our liabilities, or if we are required to pay higher premiums in the future as a result of these liabilities. A successful product liability claim brought against us in excess of available insurance coverage or a requirement to participate in any product recall may have a material adverse effect on our business and financial results. In addition, we may incur significant resources and time to defend ourselves if legal proceedings are brought against us. If any such claims are made, our reputation may also be adversely affected, which may lead to loss of future business and adversely affect our financial condition and results of operations.

We rely on our intellectual property, the failure to protect of which may affect our ability to compete

Our success depends in part on the proprietary technology contained in our products. We currently rely on a combination of patents, copyrights, trade secret laws and trademarks, as well as contractual provisions to establish and protect our intellectual property rights in our 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, out of which 16 had been successfully granted to us. Our filed patents cover designs such as digital multimedia jukebox, multimedia devices with enhanced functionality, various types of MP3 players and MP3 mini-HiFi system, digital photo frame, exercise device, earpiece sensor and method of determining body parameters and distance travelled during exercise, well-being and fitness MP3 players, apparatus and method of controlling media player with pedometer apparatus and method of adjusting the accuracy of three-axis accelerometer. We cannot be certain that the steps we have taken or will take to protect our intellectual property will adequately protect our proprietary rights, that others will not independently develop or otherwise acquire equivalent or superior technology or that we can maintain such technology as trade secrets. In addition, the laws of some of the countries in which our products are, or may be, developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as the laws of Hong Kong or the United States, or at all. Our failure to protect our intellectual property rights could have an adverse effect on our business, results of operations or financial condition.

We may be involved in litigation disputes over intellectual property

We could face claims by others that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. We cannot assure you that we will not face any allegations or potential or actual litigation on infringement of intellectual property rights in the future. Any litigation, regardless of its outcome, would likely be time consuming and expensive to resolve and would divert our management's time and attention. Any potential intellectual property litigation against us could also force us to take specific actions, including:

- ceasing to sell products that use the challenged intellectual property;
- obtaining from the owner of the infringed intellectual property a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; and
- redesigning products to avoid using the infringing intellectual property.

We may also need to enforce our patents and other intellectual property rights against infringement by third parties. If we were compelled to litigate to assert our intellectual property rights, we could incur substantial legal and court costs and be required to consume substantial time and resources in the process.

Failure to retain key personnel and skilled employees could adversely affect our operations

Our continued success and ability to expand our operations depend to a large extent upon the efforts and abilities of key managerial and technical employees with the requisite expertise. Our key personnel include Dr. Lau, Prof. Tsui and Mr. Chui, Shing Yip Jeff. The biographical details of Dr. Lau, Prof. Tsui and Mr. Chui, Shing Yip Jeff are set out in the section headed "Directors, senior management and employees" in this document.

Losing the services of key personnel could harm us. Our business also depends upon our ability to continue to attract and retain senior managers and skilled employees, particularly those skilled design and process engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the failure to retain key personnel or attract key personnel could harm our operations.

Our Group is exposed to concentration of credit risk

Our customers are generally granted a credit period ranging from 30 and 90 days. As at 31 December 2007, 31 December 2008 and 30 June 2009, approximately 32.0%, 23.4% and 10.1% of our trade and bills receivables that are not considered to be impaired were overdue as they exceeded their respective credit periods. In addition, there were instances when we granted payment extensions to certain of our customers, which resulted in payments being made to us more than 90 days after the date of delivery of our products.

During the Track Record Period, certain customers did not settle the outstanding receivables with the credit terms granted which resulted in a relatively long average trade receivable turnover days.

The provision for impairment of trade and bills receivables as at 31 December 2007, 31 December 2008 and 30 June 2009 was approximately HK$2.2 million, HK$2.0 million and HK$1.7 million, respectively, while the amounts written off as uncollectible during the two years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK$0.2 million, HK$0.4 million and HK$0.2 million, respectively.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, approximately 76.4%, 97.4% and 91.3% of our revenue was derived from our five largest customers, respectively. Given the high concentration of sales during the Track Record Period, we primarily trade with recognized and creditworthy customers to reduce our credit risk. For new customers, it is our policy that advanced payments are generally required from them. In addition, trade receivable balances are monitored on a regular basis.

We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from them to secure their payment obligations. As our sales increase, the amount of accounts receivable from our customers increases. In addition, as we implement our expansion plans, we may determine to lengthen the credit periods we grant to our customers. If any of our customers, particularly our major customers, does not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected.

We may be exposed to inventory obsolescence risk

We typically place orders to our suppliers of certain components up to nine weeks prior to the anticipated delivery date for a product. Occasionally, we would purchase raw materials and components based on our customers' rolling forecast and in cases where there is a longer lead time required to purchase the relevant materials or components, we have in the past placed orders with our suppliers prior to receiving an order for our products. Therefore, our orders to our suppliers are, to an extent, based on our forecasts of demand from our customers. If we incorrectly estimate customer demand, we may misallocate resources, resulting in, among other things, excess inventory. Alternatively, any unexpected changes in the product design and engineering as demanded by our customers may also render our inventory obsolete. Inventory obsolescence may lead to the making of adjustments to write down our inventory to the lower of cost or net realizable value, and our operating results could be adversely affected. For the two years ended 31 December 2008 and the six months ended 30 June 2009, our provisions for inventory were approximately HK$11.2 million, HK$7.1 million and HK$0.4 million, respectively.

We may be unable to secure additional funding on acceptable commercial terms to implement our business plans in the future

From time to time, our plans may change due to changing circumstances, the development of our business, unforeseen contingencies or new opportunities. If our plans do change, we may need to obtain additional external financing to meet our capital expenditure plans, which may include commercial bank borrowings or the sale of equity or debt securities. If we decide to raise additional funds through the incurrence of debt, our interest and debt repayment obligations will increase, and we may be subject to additional covenants, which could limit our ability to access cash flows from operations. As at 31 December 2007, 31 December 2008 and 30 June 2009, our interest-bearing bank borrowings amounted to approximately HK$100.1 million, HK$76.5 million and HK$58.4 million respectively, while interest expenses on bank loans and overdrafts amounted to approximately HK$8.9 million, HK$4.0 million and HK$1.7 million, respectively, during the Track Record Period.

During the Track Record Period, our interest-bearing bank borrowings comprise mainly short term bank loans and bank overdrafts. As at 31 December 2007, 31 December 2008 and 30 June 2009, the effective interest rates of short term bank loans ranged between 7.97% and 9.50%, 5.00% and 6.59%, and 5.00% and 6.45%, respectively. For bank overdrafts, the effective interest rates were 8.22%, 5.58% and 5.34% as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively. There can be no assurance that we will be able to raise adequate financing to fund our future capital requirements on acceptable commercial terms, in time, or at all. Our failure to obtain sufficient financing could result in the delay or abandonment of our development and expansion plans and have a material adverse effect on our business and financial results.

Fluctuations in exchange rates could adversely affect our business

Our foreign exchange risk arises mainly from the mismatch between the currencies of our sales, purchases and operating expenses. During the Track Record Period, most of our revenue is principally denominated in US dollars and for the same period, most of our total purchases are denominated in US dollars and HK dollars. Changes in the rate of exchange between these currencies affect our gross and operating profit margins and could result in foreign exchange and operating losses.

We cannot predict the impact of future exchange rate fluctuations on our financial condition or results of operations.

The Hong Kong Monetary Authority has recently announced a broader range in which it will permit the HK dollar to trade. It has set an upper limit for the HK dollar at a level of HK$7.75 to US$1.00 and has indicated that it will gradually ease the lower limit for the HK dollar to a level of HK$7.85 to US$1.00. There is no assurance that the Hong Kong government would not change the linked rate or abandon the link altogether. As of 21 July 2005, the Renminbi was no longer pegged to the US dollar but rather to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the US dollar and the HK dollar by approximately 2%. Should there be significant changes in the exchange rates of US dollar against the HK dollar and the Renminbi, our financial condition and results of operations may be adversely affected.

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

We are licensed by some of our suppliers to install their DRM technologies, which, among other things, control the distribution of digital content, on our products. Since we rely on our subcontractors for the assembly of our products, we have set up a designated office at each of our subcontractors' production sites for such installation. We do not have complete control over the access to our subcontractors' premises and our security measures for the protection of the DRM technologies may not be sufficient to prevent any unauthorized access to such DRM technologies. We were not subject to claims from our DRM suppliers during the Track Record Period. In the event that such DRM technologies are accessed without our authorization, or if we use such DRM technologies improperly, we could face claims by such suppliers that we are improperly using intellectual property owned by them or otherwise infringing their rights in intellectual property. Any unauthorized access to such DRM technologies would also result in our breach of the license and may subject us to liabilities to providers of digital content whose intellectual property may be infringed as a result. In addition, digital content providers whose content is recorded or otherwise contained in our products may sue us for any loss resulted from our failure to safeguard the DRM technologies. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. Any litigation, regardless of its outcome, would likely be time consuming and expensive to resolve and would divert our management's time and attention. Any potential intellectual property litigation against us could also force us to cease to sell products that use the DRM technologies in issue.

RISKS RELATING TO OUR INDUSTRY

Our business depends on adequate supplies of raw materials at prices acceptable to us

Our manufacturing operations depend upon obtaining adequate supplies of raw materials. The principal materials used in our production process are PCBAs, ICs, plastic components, batteries and LCDs. In the ordinary course of business, we purchase most of our raw materials and components from a limited group of suppliers. To maintain competitive operations, we must obtain from these suppliers, in a timely manner, sufficient quantities of acceptable materials at acceptable prices. We purchase all of our materials on a purchase order basis and have no long-term contracts with any suppliers. From time to time, particularly during industry upturns, vendors may extend lead times or limit the supply of required materials to us because of vendor capacity constraints and, consequently, we may experience difficulty in obtaining acceptable materials on a timely basis. In addition, particularly during industry upturns, prices that we pay for materials may increase due to increased industry demand. This increase could negatively impact our operating results especially if we are unable to pass this cost on to our customers. During the Track Record Period, we had experienced inability to pass the increased cost to our customers which have negatively affected our profit margin. Together with the impact of the global economic downturn, our profit margin on the sales of finished products generally decreased from approximately 15.1% during the year ended 31 December 2007 to approximately 12.4% during the six months ended 30 June 2009. Further, if any of our vendors were to cease operations for any reason, we might experience difficulty in obtaining acceptable materials from alternative vendors on a timely and cost-effective basis.

Some of our customers require us to complete a rigorous approval process with new vendors before we can utilize new vendors. We cannot predict how much time this approval process will take to complete and we may not be able to utilize alternative sources on a timely or cost-effective basis. Our business and results could be negatively impacted if our ability to obtain sufficient quantities of materials and other supplies in a timely and cost-effective manner is substantially diminished or if there are significant increases in the cost of materials that we are unable to pass on to our customers.

We operate in a highly competitive industry

The consumer electronics industry in general is extremely competitive. Some of our competitors may have greater design, manufacturing, financial or other resources than we do. Current and prospective OEM customers evaluate our capabilities against, among other things, the merits of producing turnkey solutions themselves. In addition, customers evaluate turnkey solutions providers based on, among other things, their global manufacturing capabilities, speed, quality, engineering services, flexibility and costs. The competitive nature of our industry has resulted in substantial price competition. We face increasing challenges from competitors who relocate to lower cost areas to decrease their costs of production. We may lose our customers to our competitors if we fail to keep our total costs at competitive levels for comparable products. We may also lose customers if we fail to develop the technology and provide the services required by our customers at a rate comparable to our competitors.

Demand for services in our industry could be volatile and depends upon the performance of our customers

The profitability of companies in our industry depends on the performance and business of our industry's customers. If demand is low for customers' products, companies in our industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could seriously harm our industry's customers could, as a result, adversely affect us, including:

- their inability to manage their operation efficiently and effectively;
- recession in our key customers' markets;
- seasonal demand for their products; and
- failure of their products to gain widespread commercial acceptance.

We operate in a rapidly-changing technology environment

Changes in technologies may render certain of our products obsolete. Our ability to anticipate changes in technology and to develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in our ability to grow and to remain competitive. There can be no assurance that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including the lack of market acceptance, delays in new product development and failure of products to operate properly.

Our industry is dependent on the strong and continuous growth of outsourcing in consumer electronic products

Our industry exists because customers choose to outsource certain functions in the production process of consumer electronic products. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantage of outsourcing. We depend on the continuing trend of increased outsourcing by our customers. Future growth in our revenue depends on new outsourcing opportunities in which we assume additional manufacturing and supply chain management responsibilities from our customers. To the extent that these opportunities do not materialize, either because our customers decide to perform these functions internally or because they use other providers of these services, our future growth could be limited.

RISK RELATING TO THE PRC

New labor laws in the PRC may materially and adversely affect our results of operations

As of the Latest Practicable Date, we had 156 employees in the PRC. On 29 June 2007, the PRC government promulgated a new labor law, namely 中華人民共和國勞動合同法 (the Labor Contract Law of the PRC*) (the "**New Labor Law**"), which became effective on 1 January 2008. The New Labor Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labor Law could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected. We also could incur additional material compliance costs in connection with the New Labor Law.

The new tax law subjects us to a withholding tax at a rate of 10%

We are incorporated under the laws of the Cayman Islands and hold interests in our PRC subsidiary PD Shenzhen through PD (BVI) and PD (HK). The previous 中華人民共和國外商投資企業和外國企業所得稅法 (Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises*) exempted withholding taxes on dividends payments to foreign investors. Pursuant to 中華人民共和國企業所得稅法 (the Enterprise Income Tax Law of the PRC*) and 中華人民共和國企業所得稅法施行細則 (the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC*) which became effective 1 January 2008, taxable income from the PRC payable to foreign investors which are not PRC tax residents are subject to a 10% tax (payable by withholding), which may be reduced if the foreign jurisdiction of incorporation of the recipient of the dividend has a tax treaty or other agreement with the PRC that provides for a different withholding tax rate. On 21 August 2006, Hong Kong and the Mainland of China entered into 內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排 (Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income), which provided that dividends paid by a foreign-invested enterprise in the PRC to its shareholder(s) in Hong Kong will be subject to a withholding tax at a rate of 5% if the Hong Kong shareholder(s) directly holds 25% or more interest in the PRC enterprise. As PD (HK) holds 100% of PD Shenzhen, we would rely on this provision to apply to the PRC tax authorities to reduce the rate of withholding tax to 5% for any dividends payable by PD Shenzhen to PD (HK). On 27 October 2009, the State Administration of Taxation of the PRC (中國國家稅務總局) issued關於如何理解和認定稅收協定中"受益所有人"的通知(國稅函)[2009]601號) ("Circular 601"), which addresses which entities are treated as "beneficial owners" under any applicable tax treaty on dividends, interest and royalties entered into by the PRC. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a "beneficial owner" on a case-by-case basis based on the "substance over form" principle. No assurance can be given that the PRC tax authorities would not deny our application for the reduced rate of withholding tax based on this principle. If our application for the reduced rate of withholding tax is denied by the PRC tax authorities, this would result in dividends payable from PD Shenzhen to PD (HK) being subject to withholding tax at a rate of 10%, instead of 5%.

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

Substantially all of our subcontracting OEMs are located in the PRC under subcontracting arrangements. Accordingly, our results of operations, financial position and prospects are subject to a significant degree to economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in a number of respects, including:

- its structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

In recent years, the PRC government has implemented economic reform measures emphasizing decentralization, utilization of market forces in the development of the PRC's economy and a high level of management autonomy. Before its adoption of reform and open door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies implemented since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation. Although we believe these reforms will have a positive effect on our overall and long-term development, changes in China's political, economic and social conditions, laws, regulations and policies may have an adverse effect on our current or future business, results of operations or financial condition.

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

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, property title, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new and evolving, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainties.

RISKS RELATING TO THE GLOBAL ECONOMIC DOWNTURN

Recent financial difficulties and economic conditions in the United States, Europe and other regions may materially and adversely impact our business, financial condition, results of operations and prospects in a number of ways, including:

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;
- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession may cause our customers to delay, defer or cancel their purchases from us, including decisions previously made;
- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of consumer electronic devices products;

- financing and other sources of liquidity may not be available on reasonable terms or at all; and

- the trading price of our Shares may experience increased volatility.

These risks may be exacerbated in the event of a prolonged economic downturn or financial crisis. We had no or has not received order cancellations after the economic downturn, whereas the delay in customers' settlement, in particular in the financial year 2008, attributed to the significant increase in average trade and bills receivables turnover days from about 59.0 days in 2007 to about 104.5 days in 2008.

Future sales by our existing shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares

We cannot assure you that our substantial shareholders or Controlling Shareholders will not dispose of the Shares held by them. We cannot predict the effect, if any, that any future sales of Shares by any substantial shareholder or Controlling Shareholder, or the availability of Shares for sale by any substantial shareholder or Controlling Shareholder may have on the market price of our Shares. Sales or issuance of substantial amounts of Shares by any substantial shareholder or Controlling Shareholder, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

Impact of granting options under the Share Option Scheme

We have adopted the Share Option Scheme pursuant to which we will in the future grant to our employees and business partners options to subscribe for Shares. No options had been granted pursuant to the Share Option Scheme as at the Latest Practicable Date.

The fair value of the options at the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may materially and adversely affect our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of our Shareholders and the net asset value per Share.

Details of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to this document.

RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT

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

Certain facts, forecasts and other statistics in this document including those relating to the PRC, the PRC economy and the PRC consumer electronics industry have been derived from various official government publications. We believe that the sources of such facts, forecasts and other statistics are appropriate sources for such facts, forecasts and other statistics and have taken reasonable care in extracting and reproducing such facts, forecasts and other statistics. We have no reason to believe that such facts, forecasts and other statistics is false or misleading or that any fact has been omitted that would render such facts, forecasts and other statistics false or misleading. The facts, forecasts and other statistics have not been independently verified by us, the [●], the [●], the [●] or any of their respective affiliates or advisors or any other party involved in the [●] and no representation is given as to their accuracy and completeness. Therefore our Company make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this document may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts, forecasts or statistics.