

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

Our history can be traced back to the incorporation of PD (HK) by Dr. Lau, Prof. Tsui and Prof. Cheng, the investors who were mainly professors at the HKUST and other professors and engineers on 22 January 1999. Since its incorporation, PD (HK) has been focused on the development of firmware in consumer electronics. During the early stage of PD (HK), it received support from the HKUST through the HKUST Entrepreneurship Program. On 6 April 2000, 1,000 ordinary shares of HK\$1.00 each in PD (HK) were allotted and issued to the HKUST R&D at par value pursuant to the resolutions in a meeting of the board of directors of PD (HK) on the same date. As a company under the HKUST Entrepreneurship Program, we rented certain office space inside HKUST as our research and development office. HKUST, however, does not own any of our technologies.

PD (HK) and PD (BVI)

PD (HK) was incorporated with an authorized share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. As at 14 April 2000, the total issued share capital of PD (HK) was HK\$67,690 divided into 67,690 shares of HK\$1.00 each, which were held by a total of 12 shareholders, namely Dr. Lau, Prof. Tsui, Prof. Cheng, Curtis Chih-shan Ling, Ping Keung Ko, Charles Giona Sodini, Tang Tai Kwan, Jimmy, Yung Chi Wai, Notable Success, Rochdale, Swanland and HKUST R&D. On 25 February 2000, PD (BVI), the holding company of PD (HK), was incorporated in the BVI.

Through the below share transfers, PD (BVI) became the holding company of PD (HK). On 14 April 2000, 17,500, 14,700, 14,700, 14,700, 2,450 and 2,450 ordinary shares of US\$0.10 each in the capital of PD (BVI) were allotted and issued to Notable Success, Prof. Tsui, Rochdale, Swanland, Tang Tai Kwan, Jimmy and Yung Chi Wai, respectively, the then shareholders of PD (HK), in consideration for the transfer of an aggregate of 66,170 shares held by them, 165 shares held by Prof. Cheng and 164 shares held by Dr. Lau in the issued share capital in PD (HK) to PD (BVI). Pursuant to a declaration of trust executed on 14 April 2000 by Dr. Lau, PD (BVI) became the beneficial owner of one share in the issued share capital of PD (HK) held by Dr. Lau. On 12 May 2000, 1,000 ordinary shares of US\$0.10 each in the share capital of PD (BVI) were allotted and issued to HKUST R&D in consideration for the transfer of 1,000 shares held by HKUST R&D in the issued share capital in PD (HK) to PD (BVI) on 13 May 2000. On 16 July 2001, PD (BVI) entered into a share purchase agreement with each of Curtis Chih-shan Ling, Ping Keung Ko and Charles Giona Sodini, the remaining shareholders of PD (HK), pursuant to which PD (BVI) acquired the remaining issued share capital in PD (HK) by allotting and issuing a total of 220 ordinary shares of US\$0.10 each in the share capital of PD (BVI) and became the sole beneficial owner of PD (HK) as at 16 July 2001. The abovementioned share transfers and trust arrangement were carried out to facilitate a restructuring of our Group such that PD (BVI) became the sole shareholder of PD (HK). In these share transfers, shares in PD (HK) were transferred from the former shareholders of PD (HK) to PD (BVI) in consideration for PD (BVI) issuing shares to the former shareholders of PD (HK) on a one-for-one basis, such that the beneficial ownership of the former shareholders of PD (HK) in PD (HK) remained unchanged after the share transfers. As at the Latest Practicable Date, the considerations for these share transfers had been fully settled.

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PD Trading

On 11 September 2000, PD Trading was incorporated in Hong Kong with an issued share capital of HK\$2.00 divided into 2 ordinary shares of HK\$1.00 each held by World-Wide Registration Limited and Wilberg Limited, respectively. On 7 November 2000, World-Wide Registration Limited transferred the one share held by it in the capital of PD Trading to PD (BVI) and Wilberg Limited transferred the other one share held by it in the capital of PD Trading to PD (HK), each at HK\$1.00 pursuant to two instruments of transfer both dated 2 November 2000. These share transfers represent the purchase of PD Trading by PD (BVI) from the initial subscribers of PD Trading and were carried out at nominal consideration. As at the Latest Practicable Date, the consideration for these share transfers had been fully settled. Since then, PD Trading became a wholly owned subsidiary of PD (BVI) directly and through PD (HK). PD Trading is the trading arm of our Group, primarily responsible for handling the purchase of raw materials and the sale of our products for our Group.

PD Shenzhen

As part of our strategy to expand into the PRC market, PD Shenzhen was established on 22 November 2001 as a wholly owned subsidiary of PD (HK) with a registered capital of HK\$8,000,000 and a total investment of HK\$8,400,000. PD Shenzhen is principally engaged in the research and development of the software and hardware of multi-media and Internet communication devices. While our headquarters remain in Hong Kong, PD Shenzhen represents an extension of our research and development capabilities and enables us to more closely connect with our suppliers in the PRC.

History of our business

Our first product was the digital multimedia jukebox, which was launched in 2000, utilizing our proprietary DSP-based algorithm. At the time of the launch, we filed patent for the design of the digital multimedia jukebox in the US. It has since been our practice to file patents for any innovative designs or technologies developed by us. Since 2002, leveraged on our research and development capability, we have gradually widened our product range by developing different types of digital consumer electronic devices, most of which were DSP-based. Notable products we had developed in the past include but not limited to digital audio player with recording function (2001), digital audio player with hard disk drive (2004), portable media player (2004), digital photo frame (2007), mobile phones (2008), water-proof digital mobile television (2008), well-being and fitness products (2009), netbook computers (2009) and multimedia Internet devices (2009). At the same time, we continued to grow in terms of revenue as well as head counts.

In October 2005, we have moved to our present address in Hong Kong, at which our headquarters have been situated since then.

Originally focusing on the development of firmware and software, we commenced the provision of turnkey solutions in 2004. One of our major breakthroughs was in 2007, when we successfully became the solution provider of one of the leading international consumer electronic vendors in relation to the digital audio players and we saw significant increase in revenue for providing turnkey solutions. Our revenue grew from around HK\$231 million in 2006 to around HK\$617 million in 2007.

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As at the Latest Practicable Date, we had 238 employees located in Hong Kong and Shenzhen, the PRC, with a nationwide sales network, providing embedded firmware and "end-to-end" turnkey solutions to our customers for their DSP-based consumer electronic devices.

OUR CORPORATE REORGANIZATION

We underwent the Corporate Reorganization which consisted primarily of the following steps:

- the incorporation of our Company
- capitalization of loans provided to PD (BVI) by related parties
- acquisition of PD (BVI) by our Company

Incorporation of our Company

On 11 September 2009, our Company was incorporated under the laws of the Cayman Islands as an exempted company with an authorized share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. One share was subscribed by Codan Trust Company (Cayman) Limited as nil-paid share at the time of the incorporation.

On 11 September 2009, one nil-paid share held by Codan Trust Company (Cayman) Limited, the initial subscriber of our Company, was transferred to Masteray.

Pursuant to a resolution passed in a meeting of Directors on 27 November 2009, our Company issued and allotted, at nil paid, 36,834 Shares to Swanland, 41,201 Shares to UGH, 15,787 Shares to Masteray, 15,895 Shares to Notable Success, 3,491 Shares to Excel Direct, 873 Shares to Rochdale, 4,888 Shares to Glory Wood Limited, 1,250 Shares to Starnet Development Overseas Limited, 1,000 Shares to HKUST R&D, 781 Shares to Capital Gain (H.K.) Ltd., 803 Shares to ExcelStor Great Wall Technology Ltd., 781 Shares to Thorough Bred Limited, 781 Shares to Tritec Limited, 688 Shares to Wellcorp Limited, 1,650 Shares to Tang Tai Kwan, Jimmy, 1,650 Shares to Yung Chi Wai, 781 Shares to Yu Wong, Yin Fun, 781 Shares to Wong Yuen Mee, 469 Shares to Dr. Wu Po Him, Philip, 350 Shares to Dr. Curtis Chih-shan Ling, 350 Shares to Professor Ko Ping Keung, 350 Shares to Professor Charles Giona Sodini, 313 Shares to Cheng Miu Wah, Rita and 230 Shares to Chi Hung Hui.

Capitalization of shareholders' loans of PD (BVI)

On 17 September 2009, pursuant to the resolutions in writing of the board of directors of PD (BVI), PD (BVI) issued and allotted 4,998 shares and 4,778 shares in its share capital to Masteray and UGH, respectively, credited as fully paid by capitalizing portions of the outstanding balances of JL Limited and Mr. Heung, Lap Chi Eugene with PD (BVI). The said portions of the outstanding balances of JL Limited and Mr. Heung, Lap Chi Eugene with PD (BVI) were capitalized in their entirety upon the issuance of the said shares in the share capital of PD (BVI).

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Acquisition of PD (BVI) by our Company

On 30 November 2009, pursuant to a share transfer agreement between our Company, PD (BVI) and all of the then shareholders of PD (BVI), our Company acquired the entire issued share capital of PD (BVI) from the then shareholders of PD (BVI), comprising the same persons as the shareholders of our Company, by crediting all of the 131,977 then nil-paid Shares held by the then shareholders of our Company as fully paid Shares.