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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. 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 players and digital audio players; 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 processes 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 104 staff 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) and well-being and fitness products (2009) and applied for 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, which include 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

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 this section.

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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, the HKEIA Award for Outstanding Innovation and Technology Products Awards 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 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

As at the Latest Practicable Date, we had a dedicated research and development team of 104 staff, all graduated in electronic engineering, computer science, computer engineering or related disciplines, while over 20% of them also received Masters' degrees or above in these disciplines. Over the past years, we have successfully developed different patented technologies which we have applied to our solutions and products. One of them is our proprietary DSP technology. We constantly keep abreast of the latest technological development in our industry, and look for any potential business opportunities on which we can capitalize. We believe our commitment to research and development enables us to compete in terms of technological advancement instead of solely on pricing. Our technological expertise also allows us to develop more sophisticated products, to cater for customers who are looking for high-end products and which are in general of higher unit price. Further, our engineering team has the expertise to integrate different technologies or applications for DSP-based consumer electronic devices. For example, we successfully developed a well-being and fitness device that integrates heart rate monitoring, pedometer and audio player functions. Another example is a mobile phone Bluetooth headset we developed that features a built-in audio player.

Our design supply chain management business model

We specialize in design supply chain management and we offer "end-to-end" customized turnkey solutions to our customers. While our strength is mainly in our design and technology capability, we also provide services along the value chain, including concept consultation, technology feasibility study, embedded firmware, software, hardware, mechanical and industrial design and development, intellectual

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property research, material and component sourcing, packaging design, manufacturing, packaging, quality management, shipping, logistic management and after sales support. The ability to offer these services enable us to flexibly cater for the needs of different types of customers, from customers that mainly require the industrial design and firmware and software development, to others which, on top of software and hardware design, would require more comprehensive services such as sourcing, manufacturing, packaging and logistic management. In addition, by managing the entire design supply chain, we are able to monitor all the relevant processes in the supply chain, and have better control in timing, product quality and cost of our products.

In addition to providing "end-to-end" turnkey solutions, our business model also enables us to receive royalty income by licensing our technologies to manufacturers which utilize our technologies to manufacture their products. We also receive income by providing research and development services to our customers. Such income are in general of higher margin than the sales of products as they are free of product cost.

Our relationship with HKUST

We have a long relationship with HKUST, which was ranked No. 35 of the Top 200 World Universities and ranked No. 5 of the World's Top 200 Asian Universities according to Times Higher Education, an authoritative source of information about higher education in the United Kingdom which released the World University Rankings 2009 in October 2009. HKUST has been our shareholder since 2000. We are also one of the first companies accepted by the HKUST Entrepreneurship Program, pursuant to which we received support from HKUST during our start-up stage. The HKUST Entrepreneurship Program aims to assist the HKUST's faculty, staff and students to establish technology-based start-up companies by providing them with resources and services, in order to benefit the Hong Kong economy and society in the long term. Such resources and services include, but are not limited to, space in the HKUST's on-campus technology incubator and related services, designation of an advisory team providing guidance on technical and management issues, and introductions to potential investors, sources of venture capital and potential partners. Moreover, certain of our staff are granted access to the resources and facilities of HKUST including, but not limited to, its library, research and testing facilities, recreational facilities and other facilities. HKUST is not entitled to any ownership of or any other forms of entitlement or benefit from any technologies or inventions developed by us. While our three founders had all served as professors or associate professors with HKUST, we actively recruited graduates from HKUST to join us. As at the Latest Practicable Date, over 54% of our research and development staffs in Hong Kong were graduates from HKUST. Each year, we also conduct summer intern program with HKUST. The close relationship with HKUST not only allows us to have access to the resources of HKUST, but it also allows us to have a greater presence at HKUST and thereby to be in a more advantageous position than our competitors when recruiting quality staffs from HKUST.

The experience and expertise of our senior management

Overall, our management team comprises experts in different disciplines including design, engineering, finance, manufacturing, sales and marketing with established track records.

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We were founded in 1999 by, among others, three professors from the HKUST, namely, Dr. Lau, Prof. Tsui and Prof. Cheng, who are our Directors. Dr. Lau, our Chairman and CEO, received both his Bachelor's and Master's degrees from the University of California, Berkeley in Electrical Engineering and Computer Sciences and obtained his Doctorate degree from HKUST in Electrical and Electronic Engineering. After obtaining his Doctorate degree, Dr. Lau pursued his research interest at Stanford University and returned to HKUST in 1996. He is currently an Adjunct Associate Professor in HKUST. Prof. Tsui received his Doctorate degree in Computer Engineering from the University of Southern California in 1994. He is currently an Associate Professor in HKUST. Prof. Cheng received his Doctorate degree from Princeton University in 1991 in Electrical Engineering. From 1991 to 1995, he was an Assistant Professor in the Electrical and Computer Engineering Department of University of Colorado at Boulder. He is currently a Professor in the Department of Electronic and Computer Engineering of HKUST. Each of them has been engaged in the research and development of information technology for over 18 years.

In addition, Mr. Chui, Shing Yip Jeff, a Director, who was with IBM prior to joining us, has more than 25 years of experience at IBM in multiple disciplinary areas including software development, service delivery, sales and marketing in information technology industries. Prior to joining us, Mr. Chui was the Linux business leader in Asia Pacific and Hong Kong of IBM.

Our relationship with IC manufacturers

ICs are one of the most important components in our products. Furthermore, our firmwares and softwares require an in-depth understanding of the technology of ICs. Thus, our relationship with the IC manufacturers is critical to our success. We have established long term strategic relationship with some of the international IC manufacturers. These IC manufacturers include one of the leading IC manufacturers headquartered in the US. It has more than 10,000 customers worldwide, generating revenue of over US\$5 billion in 2008 and was one of the Fortune 500 companies as at the Latest Practicable Date. Another IC manufacturer, headquartered in Korea, is a leading MP3 IC manufacturer. We began our relationship with these two IC manufacturers over six years ago. Initially, the IC manufacturers were only suppliers of ICs for us. However, over time, we gradually developed strategic relationships with these IC manufacturers. Pursuant to certain agreements entered into between us and these IC manufacturers, we cooperate with these IC manufacturers to provide turnkey solutions and services to our customers, and purchase ICs from them. The IC manufacturers should provide us with access and assistance to their technical and service personnel, and sales and marketing information applicable to the IC products. They shall also furnish specification, promotional literature and other materials pertaining to the IC products. The term of the strategic relationship to the other party shall expire only when either party notifies its intention in writing to cease the strategic relationship. No direct investment or costs have been incurred by us in entering into such strategic relationships. Furthermore, we are allowed to have access to SDKs and source codes of their respective operating systems, thereby enabling us to acquire the expertise and experience in these operating systems and modify the Embedded Operating Systems with these IC manufacturers to support different devices and applications in order to meet specific requirements of our customers. We also work closely with these IC manufacturers to optimize the operating systems of their ICs, with an aim to develop more advanced products which may feature lower power consumption, shorter signal processing time, better multi-tasking ability and other

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improvements. In addition, having a close relationship with these IC manufacturers also allows us to keep abreast of the latest development in the 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.

Our customers are worldwide leading and renowned

Our major customers are group companies of leading international brand name vendors and group companies which are either on the Fortune Global 500 or Fortune 500 lists. These include one of the top five brands in terms of worldwide PMP/MP3 market share in 2008, which is headquartered in Europe, and also leading specialty retailers, which are headquartered in the US and operate thousands of retail stores around the world. We have established relationships with these major customers ranging from over one year to over four years. Due to their size and sales network, these customers normally have orders of relatively larger size, with less credit concerns. For the two years ended 31 December 2008 and the six months ended 30 June 2009, we did not record any bad debt provisions for these major customers. This provides us with a relatively steady income and a stable cashflow to further develop our business. Furthermore, we work closely with these customers on their product road maps and always keep abreast of the latest changes or trends in the end-customers buying behaviour so that we can adjust our designs to cater for such changes.

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

Consumer electronics technologies evolve at a fast rate. We believe that the continued technological advancement is essential to our future success. We seek to research new technologies and develop innovative products and solutions to satisfy the needs of our customers as well as to equip ourselves to approach new customers. We plan to deploy additional resources on the following developments:

Further development of our "Live-Lite" well-being and fitness products

We launched our well-being and fitness products in 2009. It is our plan to expand our product offerings in such area. Currently, we are leveraging on our know-how in DSP technology in developing an earphone which can monitor the heart rate of an individual using the infra-red transmitted in the earplug of such earphone. Such product, when compared with traditional heart rate monitoring products, is more convenient and ready-to-use in everyday life. We have already applied for registration of patent of such design. Following the heart rate monitoring features, we intend to further develop other biometric measurement features, such as glucose and blood pressure monitoring, to be included in our well-being and fitness products. Our well-being and fitness products are based on technologies that were recently developed by us in-house. We have filed 16 patents

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for the relevant technologies and so far two patents in relation to our well-being and fitness products have been granted. Furthermore, we are not aware of any similar products, namely digital audio players with biometric measurement functions that are available in the market. As such, we consider that we have considerable first mover advantage as well as expertise in this type of products which we believe will be one of the growing areas in the future. We are considering forming strategic partnerships with some of the worldwide leading well-being and fitness manufacturers to co-develop new products and have made contact with potential partners. However, as at the Latest Practicable Date, we had not entered into any definitive agreements with any of such potential partners in this regard.

Enhancing Web 2.0 features on our products

We intend to continue to enhance the features of our existing products. Leveraging on our expertise in technology integration, we plan to integrate additional features into our portable personal entertainment devices without increasing the cost and/or the size of the devices. In particular, we will expand the functionalities of our products to leverage on the social network aspects of Web 2.0 technologies. For example, we will continue incorporating the Internet social networks connectivity functions, such as Facebook and YouTube, into our products.

Open source-based devices

Open source-based devices refer to devices which utilize open source-based operating system instead of other non-open source-based operating system. We believe that the open source approach in software will become more and more popular in the future. In particular, the consumer electronics market, compared to the personal computer market, is likely to be more receptive to open source operating systems. That is because, due to its free and open source nature, we believe that open source-based software are generally of lower cost and higher flexibility when compared with software developed under proprietary operating systems. In addition, unlike the personal computer market which is dominated by few operating system providers, whose operating systems have already been well known to the consumers, the dominance of the key operating systems or platforms in the digital mobile device market is relatively low at present. We believe that the Android-based operating system, developed by Open Handset Alliance and has been made available as open source since October 2008, and other open source-based operating system, will have immense potential in the area of digital mobile devices.

We intend to develop open source-based devices which would still utilize the technological know-how of our Group including but not limited to DSP technology. Due to our close relationship with the IC manufacturers, we were provided with certain technical information about Android-based devices and began the research and development of Android-based devices in 2008. Since then, we have been developing open source-based firmware and applications for DSP-based consumer electronic devices. We have already begun to contact our customers and potential customers for open source-based digital mobile devices such as mobile Internet devices, mobile televisions and smartphones and we plan to launch our first open source-based product in 2010.

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At the same time, we received a non-legally binding letter (the "Letter") from one of the leading television station operators in Hong Kong for engaging our support in the provision of mobile television devices which are intended to be open source-based. Pursuant to the Letter, such television station operator indicated its interest to involve us in the mobile television business and planning in respect of (i) development of user interface models/prototypes for the mobile television receivers or PMPs; and (ii) design of an ecosystem that will support a healthy development and wide availability of mobile television receivers in Hong Kong. We believe we are well poised to perform these tasks. Firstly, we have been providing solutions for both digital mobile television and PMP products. Secondly, we also possess the know-how in areas such as DSP technology, wireless connectivity and other relevant technologies which are required for the development of mobile television receivers or PMP. As such, we believe that we possess the relevant expertise, technology and research and development capacity required to perform the work and fulfill any order under the Letter. As at the Latest Practicable Date, no definitive agreement had been entered into between us and such television station operator.

Development of netbook computer solutions

In view of the future growth potential of the netbook computer market, in particular in the PRC, we have recently developed and started to provide netbook computer solutions for our customers. We are leveraging on our existing technological know-how to develop our business in the netbook computer market. Netbook computers are in general more portable and are of lower price than traditional notebook computers, which, we believe, would be in demand in the emerging PRC market which is characterized by its high potential market size and the relatively lower consumption per capita.

Broadening our market coverage and expansion of our sales network

A key objective of our growth strategy is to broaden our market coverage. We intend to expand our existing sales and distribution network. Geographically, we plan to explore the Asian market, in particular, the PRC market. Having obtained the certifications of our products including but without limitation to the compulsory product certification and the permission to connect to the network regulated domestically in the PRC, we plan to establish the sales and distribution network targeting the PRC internal consumption market. Certain products under development, including Internet television set-top box and netbook computer, are specifically designed for the PRC market. We are actively seeking to form strategic alliance with PRC manufacturers to accelerate the penetration of our products in the PRC market, with an aim to be able to successfully promote and license our technologies to the PRC manufacturers of consumer electronic devices. We signed a memorandum of understanding (the "MOU") on 19 May 2009 with one of the leading electronic and information technology corporations in the PRC according to a study by the Ministry of Industry and Information Technology of the PRC in 2009, which is principally engaged in the manufacturing and sale of color television sets, trading of related components, and the manufacturing and sale of other audio-visual products. Furthermore, such corporation is one of the leading audio-visual products manufacturers in the PRC. Pursuant to the MOU, such PRC corporation shall engage us to design and manufacture various electronic input and set top devices for its television related products. Each party shall bear its own costs and expenses in relation to any effort, work

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and engagement expelled to achieve the purpose set out in the MOU. Each party shall retain its ownership of intellectual property rights. The term of the MOU shall expire on 31 December 2009 unless extended by mutual consent of the parties. We are currently in discussion with such PRC corporation in relation to the extension of the MOU. Since we have been developing digital mobile devices such as mobile televisions, plus our know-how in DSP technology, we believe that we possess the relevant expertise, technology and research and development capacity to fulfill any order under the MOU. As at the Latest Practicable Date, no definitive agreement had been entered into as both parties were in discussions and had not reached an agreement on the terms of cooperation.

At the same time, we intend to further enhance our worldwide sporting goods sales networks in order to complement our promotion on the well-being and fitness products.

Enhancing our research and development capability

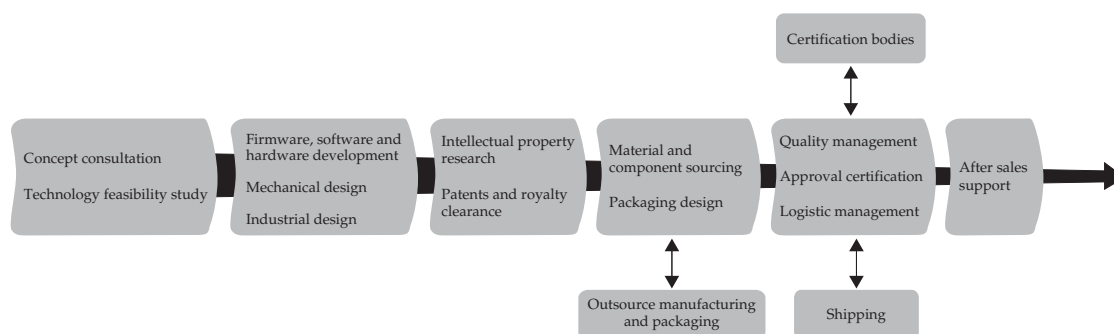
Along with product and technology development, we aim to continue our investments in research and development. We intend to recruit and train more research and development staffs, in particular for our well-being and fitness product solutions. At the same time, we will seek to explore possible collaboration with universities and other research institutions in Hong Kong and/or overseas to further strengthen our research and development capability.

Possible merger and acquisition opportunities

We will pursue merger and acquisition opportunities within the industry in order to further expand our business. We will seek targets that have the potential to complement our existing sales and distribution network or our business model. We believe that successful acquisitions will bring synergies to our Group and enhance our Company's value to our shareholders. As at the Latest Practicable Date, there was no target identified and no definitive agreement had been entered into. Our Company will make an announcement in accordance with the GEM Listing Rules as and when necessary.

OUR BUSINESS MODEL

Design supply chain



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We seek to offer "end-to-end" turnkey solutions for our customers anchored by our embedded firmware along the design supply chain to leverage our expertise in developing embedded firmware. We consider that the ability to offer these services along the design supply chain provides us with the flexibility to cater for different types of customers. While some of our customers require only the industrial design and Embedded Operating Systems and software development solutions, other customers would require more comprehensive services on top of software and hardware design and development, such as sourcing, manufacturing, packaging, shipping and logistic management. We believe that the needs of each of these types of customers can be satisfied by the range of services we offered. All revenues derived from the abovementioned businesses during the Track Record Period were reflected, based on their arrangements, as sale of products and were not separately accounted as sale of firmware and/or solutions. No products were sold under our own brand name during the Track Record Period.

The key stages for a complete turnkey solution include:

- *Concept consultation and technology feasibility study*

This stage is triggered either by a request for a new project initiated by our senior management team when they identified certain business opportunities which are worth studying or when we are approached by our customers who may only have brief concepts about the impending products at the time and request us to conduct further research into the concepts. During this stage, our research and development team works closely with our sales and marketing team and project management team to research on technologies or the feasibility of the impending product as requested by our senior management or our customers.

- *Firmware, software and hardware development and mechanical and industrial design*

Upon approval of the feasibility studies or otherwise upon the customers' request, our research and development team commences the design of the products based on our customers' technical and cost specifications, the process of which will be overseen by our project management team. Our output at the end of this stage includes industrial design, user interface design, mechanical, hardware, firmware and software development. Firmware and software used in our products are developed in-house, while we work with IC manufacturers to modify their Embedded Operation Systems. Manufacturing and components specifications for our products are also decided and confirmed at this stage.

- *Intellectual property research and patents and royalty clearance*

Where relevant, we assist our customers to conduct intellectual property research, obtain patents and royalty clearance with respect to the technologies and/or the designs at this stage through our dedicated intellectual property research team.

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- *Material and component sourcing and packaging design*

Our material management team is responsible for assisting our customers in sourcing materials and components. We aim at sourcing materials and components that are suitable for our design while at the same time providing cost effectiveness and manufacturing flexibility. Our material management team also provides production schedules as well as warehouse management functions for the customers. Upon request by our customers, we also provide packaging designs for the products, which are to be sold to consumers by our customers.

- *Manufacturing and packaging*

We do not own any manufacturing facilities, but we work with a number of third party subcontractors to perform the manufacturing, assembly and packaging functions. We set out specific production procedures and material flows for the subcontractors to execute. Furthermore, we have engineering staff stationed in each of the subcontractors, overseeing the entire production and would make necessary changes to the production processes when appropriate in order to improve efficiency and quality of the products. In addition, our quality management staffs also visit the subcontractors frequently to inspect the raw materials, components, semi-finished products and the finished products at various stages of production, ensuring that the actual products are produced in accordance with their respective specifications and their quality meets our customers' standards.

- *Quality management and approval certification*

We provide quality management to our customers. In addition to the subcontractor manufacturer's own quality assurance procedures, our quality control team independently tests the products for reliability issues on a sampling basis. We also liaise with the certification bodies and assist our customers to obtain further approval certifications such as the "CE" certifications and "ROHS" certifications.

- *Shipping and logistic management*

We provide shipping support to our customers by engaging and coordinating with independent shipping and logistic services providers to ship the final products to our customers' distributors or retailers or to destinations as specified by our customers across the globe. We also provide logistic management to our customers by tracking the products during the shipping process and ensuring that the products are properly shipped.

- *After sales support*

We provide after sales support to our customers, while the warranty period of our products vary from product to product.

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We also engage third party service providers to provide after sales support for end users of our products, such as product hotlines and warranty programs. Although after sales support for our products is outsourced, our sales and marketing team constantly monitors the works of the outsourced sales support service providers and assists our customers in resolving any issues arisen from such outsourcing arrangement.

Licensing of technologies and provision of research and development and other services

On top of providing design supply chain solutions to our customers, we also receive royalty income by licensing our technologies to our customers, which are mainly OEM manufacturers, utilizing our designs and/or our technologies for manufacturing their products. Such royalty income are received based on an agreed amount for each consumer electronic device enabled by our firmware, design or technology sold by our customers. Royalty income are usually calculated based on a fixed price for every device sold multiplied by the actual number of products sold by our customers.

In addition, we also receive income by providing research and development and other services to our customers. Such services in general are provided based on the request of the customers, and are usually in relation to the research and development of new products at a pre-mass production stage. After we have successfully assisted the customers in developing new products, we are usually awarded the orders to provide solutions to such new products when it reaches mass production stage.

PRODUCTS AND SOLUTIONS

We provide solutions for a variety of products which are mainly portable consumer electronic devices based on our in-house DSP technology and other technologies. We generate income from the sale of products, while we also receive royalty income from licensing our technologies and fees by providing research and development services to our customers. The following table sets out the breakdown of our turnover contributed by our business segments during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2007		2008		2008		2009	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Sale of products	573,311	93.0	505,477	90.9	144,703	87.4	131,279	88.9
Royalty income	32,331	5.2	37,713	6.8	15,133	9.1	9,954	6.7
Rendering of services	11,096	1.8	12,590	2.3	5,824	3.5	6,504	4.4
Total	616,738	100.0	555,780	100.0	165,660	100.0	147,737	100.0

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Sales of products

The following table sets out the breakdown of our sale of finished products by product categories and relevant information during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June					
	2007			2008			2008			2009		
	No. of units sold	Average selling price HK\$	Sales HK\$'000	No. of units sold	Average selling price HK\$	Sales HK\$'000	No. of units sold	Average selling price HK\$	Sales HK\$'000	No. of units sold	Average selling price HK\$	
Well-being and fitness products	-	-	-	-	-	-	-	-	-	8,919	43,724	204.0
Personal portable entertainment devices	464,255	1,539,543	301.6	87,100	400,341	217.6	68,030	298,344	228.0	97,156	438,737	221.4
"Life-style" consumer electronics devices	22,238	77,570	286.7	2,657	7,149	371.7	1,187	3,601	329.6	1,194	2,373	503.2
	<u>486,493</u>	<u>1,617,113</u>		<u>89,757</u>	<u>407,490</u>		<u>69,217</u>	<u>301,945</u>		<u>107,269</u>	<u>484,834</u>	

The niche of our products is their incorporation of advanced technologies. Our products are principally DSP-based consumer electronic devices characterized by their low power consumption, Internet connectivity, multiple functionality and flexible manufacturing process. Our technological capabilities allow different newly developed technologies and applications (including but not limited to self-developed technologies and applications) to be included into our solutions and products in a timely manner. Recent examples include YouTube video clip downloading function and Facebook connectivity function being introduced to our solutions and products. Other examples include our self-developed three-axis accelerometer which distinguishes motions in three dimensions and a MP3 player with heart rate monitoring function.

The following set out the end products which utilized our technology in terms of product type.

(i) *Well-being and fitness products*




Our well-being and fitness products are audio players which have biometric measurement features to tailor for fitness or sports usage, such as heart rate monitor and three-axis G-sensor pedometer which assist the users in improving the accuracy in their physical measurement. Our well-being and fitness products also include other functions such as stopwatch, digital audio playing function that supports MP3 and WMA audio formats, flash memory storage, FM radio tuner and USB connection. Our well-being and fitness products help the users in keeping track of the intensity of each exercise session, and our self-developed software enables them to download and analyze exercise data in the computer and have better exercise planning and fitness goal achievement monitoring.

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Our well-being and fitness products were first launched in 2009 with selling prices ranging from approximately HK\$152.1 to HK\$350.0, and are targeted at brand name vendors. The life cycle of these products is estimated to be approximately one to two years.

One of our well-being and fitness products is a media player earphone with heart rate monitor and pedometer functions. It also features a voice prompt reading of the heart rate, and users can input the heart rate data on Facebook, sharing the user's exercise data among the other Facebook users.

Set out below are the list of our well-being and fitness products:

	Product number	Descriptions	Sold by our Group	Launch year
	PD3030	Earphone with voice out real time feedback heart rate monitoring and pedometer functions	Yes	2009
	PD6160	MP3 player with heart rate monitoring, pedometer, stopwatch and FM radio functions	Yes	2009
	PD6810	MP3 player with voice out real time feedback heart rate monitoring, pedometer, stopwatch and FM radio functions	Yes	2009

"Live-Lite" series

We launched our own branded "Live-Lite" series of products in July 2009. Our "Live-Lite" series are well-being and fitness products with features to tailor for fitness or sports usage. The target market of the "Live-Lite" series is Hong Kong. At present, the "Live-Lite" series of products are on trial sales and are available in select retail shops, such as the TDC Design Gallery of HKTDC in Hong Kong.

BUSINESS

(ii) *Personal portable entertainment devices*

Our personal portable entertainment devices include digital audio players and portable media players. Features found in our digital audio players include humming search technology, flash memory storage, FM radio tuner, equalizer, USB connection and other features, and our digital audio players support MP3 and WMA audio formats, support Rhapsody and other applications. As a result of our research and development effort, we successfully developed a device which combines the Bluetooth mobile device headset with digital audio player with a size as small as a typical Bluetooth headset.

Features included in our current portable media players include flash memory storage, full colour TFT display, voice recording, FM radio tuner, built-in speaker, USB connection and other features, and our portable media players support MP3 and WMA audio formats, JPEG and BMP photo viewing formats and SMV and WMV video viewing formats.






Our personal portable entertainment devices were first launched in 2003 with selling prices ranging from approximately HK\$84.2 to HK\$994.5 during the Track Record Period, and are targeted at brand name vendors. The life cycle of these products is approximately one to three years.

The quantity sold of our finished products for personal portable entertainment devices during the year ended 31 December 2008 decreased significantly as compared to the year ended 31 December 2007. This was mainly caused by the change in our business arrangement from providing "end-to-end" solutions and delivering finished products in 2007 to delivering semi-finished products from April 2008 up to the end of 2008. In January 2009, we were able to resume the provision of "end-to-end" solutions and finished products, which increased the quantities sold of our finished products for personal portable entertainment devices during the six months ended 30 June 2009.



The average selling price for our personal portable entertainment devices decreased in the year ended 31 December 2008 as compared to the year ended 31 December 2007. This is because more devices with larger flash memory storage, which had higher unit selling price, were sold during the year ended 31 December 2007. The average selling price for the six months ended 30 June 2009 was comparable to the year ended 31 December 2008.

BUSINESS

Set out below are examples of our personal portable entertainment devices:

	Product number	Descriptions	Sold by our Group	Launch year
	PD3040	Bluetooth headset with A2DP and AVRCP support, caller ID support, reject call, call waiting, last number redials, missed call display, FM radio and MP3 player functions	Yes	2009
	PD6240	MP3 and video player with SDHC support, photo display, FM radio, text file reader, voice recording, and FM recording functions, and built-in speaker	Yes	2009
	PD6340	MP3 and video player with SDHC support, Rhapsody support, 3.5" LCD display, photo display, FM radio functions, and built-in speaker	Yes	2009
	PD6050	MP3 and video player with photo display, FM radio, voice recording, FM recording and music library functions, and built-in speaker	Yes	2008
	PD6300	Headset-free MP3 player targeting for children with hearing safety, simple play/stop, next song and previous song buttons, stores up to 16 hours of music, plays a wide range of educational content from audio books to language instruction	Yes	2008

BUSINESS

	Product number	Descriptions	Sold by our Group	Launch year
	PD6060	MP3 player with direct USB connection, FM radio and folder support functions	Yes	2007
	PD6070	MP3 player with 2-color OLED display, voice recording and FM radio functions	Yes	2006
	PD205	MP3 player with FM radio function, 1.5" LCD display SD/MMC support	Yes	2005

(iii) *"Life-style" consumer electronic devices*






We provide solutions to various consumer electronic devices, such as mini HiFi systems utilizing hard-disk drive storage, digital photo frames with wireless connection, waterproof mobile digital televisions, portable voice recorders, portable hard disk storages and netbook computers.

Our "life-style" consumer electronic devices are targeted at brand name vendors with selling prices ranging from HK\$84.2 to HK\$1,170.0. The life cycle of these products are approximately one to four years.

The quantities of our "life-style" consumer electronic devices sold throughout the Track Record Period decreased primarily because we were more focused on the development of our personal portable electronic devices and well-being and fitness products during such period. The general increase in the average selling price of our "life-style" consumer electronic devices was caused by the launch of our portable hard disk storage in 2008, which had a higher average selling price than other "life-style" consumer electronic devices.

BUSINESS

Set out below are examples of our "life-style" consumer electronic devices:

	Product number	Descriptions	Sold by our Group	Launch year
	PD5020	Digital photo frame with on-line photo album, RSS instant message, Internet radio, clock and calendar, wireless connection, photo display and video viewing, multiple format memory card support and with remote control	Yes	2008
	PD5060	Water-resist digital television, FM radio, video in/out and with remote control	Yes	2008
	PD7080	Digital voice recording device with Auto Gain Control (AGC), Auto Level Control (ALC) and Voice On Record (VOR) features, PCM format file editor, audio playback, external micro-SD memory card support	Yes	2008
	PD8060	Portable 1.8" hard disk drive storage, built-in USB cable blinking LED which indicates drive's activity	Yes	2008
	PD5000	Mini HiFi system with hard disk drive storage media, can copy files from SD/MMC memory card or external audio player to internal hard disk, fill-it-up technology, AM/FM radio, radio recording and line-in recording, with remote control	Yes	2005

BUSINESS

Our design teams consist of an industrial design team and mechanical design team. The industrial design team is responsible for the design of the outlook, user interfaces and flows of the products, while the mechanical design team is responsible for the structural design of the product casing and fitting of parts that made up of the product. Our design team has a total of four industrial designers and 16 mechanical engineers. The design team has led us to win numerous industrial awards as recognitions of the our product's designs, including the Consumer Product Design Award, Certificate of Merit in Consumer Product Design among the 2006 Hong Kong Awards for Industries from the Federation of Hong Kong Industries in 2006, and the Consumer Product Design Certificate of Merit among the 2007 Hong Kong Awards for Industries from the Federation of Hong Kong Industries in 2007.

Up to the Latest Practicable Date, we had never been involved in any patent/design infringement disputes against us.

Licensing of technologies and provision of research and development services

On top of providing design supply chain solutions to our products, we also receive royalty income by licensing our technologies to our customers. In addition, we also receive income by providing research and development services to our customers.

TECHNOLOGY RESEARCH AND DEVELOPMENT

Our research and development department

Led by Dr. Lau, our Chairman and CEO, our research and development team comprised 104 staffs as at the Latest Practicable Date, located in our headquarters in Hong Kong and our office in Shenzhen, the PRC, all graduated in electronic engineering, computer science, computer engineering or related disciplines. We had two research and development centres, one in our headquarters in Hong Kong and one in our office in Shenzhen High-Tech Industrial Park, Shenzhen, the PRC, with 44 staffs and 60 staffs, respectively, as at the Latest Practicable Date. Our research and development department is composed of three teams, namely the technology platform development team, the hardware development team and the software and PC connectivity team, each of which is responsible for different design and technology aspects of our products.

We consider our research and development capability as one of our core competitive strengths. Furthermore, we believe our future success will depend in part on our ability to continue technological advancement and deliver advanced products and technologies to our customers and potential customers. Our research and development team works closely with our sales and marketing team, project management team, quality control team as well as the research and development teams of our customers and IC suppliers to develop the solutions and products to meet our customers' needs. Due to our relationship with the IC manufacturers that we have cultivated over time, we are provided with 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 specific requirements of our customers and to accumulate knowledge and experience at an earlier time than otherwise.

BUSINESS

Over the past years, we have successfully developed different patented technologies which we have applied to our solutions and products. We constantly keep abreast of the latest technological developments in our industry, and look for any potential business opportunities on which we can capitalize. We believe our commitment to research and development enables us to compete in terms of technological advancement instead of solely on pricing. Our technological expertise also allows us to develop more sophisticated products, to cater for high-end customers and which are in general of higher profit margin. Further, our engineering team has the expertise to integrate different technologies or applications for DSP-based consumer electronic devices. For example, we successfully developed a well-being and fitness device that integrates heart rate monitoring, pedometer and audio player functions. Another example is a mobile phone Bluetooth headset we developed that features a built-in audio player.

Our technologies

We strive for innovation and invention. Since the commencement of our business 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 digital audio players (2004), portable media player (2006) and well-being and fitness products (2009). Recently, we are in the process of developing open source-based electronic devices such as mobile television devices, smartphone, and netbook computers, as detailed in the section headed "Future plans and prospects" in this document.

We offer our research and development staffs an incentive scheme to encourage them to develop new designs and technologies, and the staff will be awarded monetary compliments for each new design or technology developed by him/her being patented. Our overall strategy for the advancement of our technological capabilities is to concentrate our efforts on the following areas: storage technologies, power management, Internet and PC connectivity technologies, media processing and wireless technologies. We consider that such areas are critical to our existing products and new products. We aim at developing new technologies or enhancing existing technologies in the above areas, with an aim to deliver tailor-made solutions and products to our customers which are differentiated from the offerings of our competitors.

We have developed many proprietary technologies, most of which are DSP-based, including but not limited to MP3 recording algorithm, technologies related to wireless, music library database management, humming search with sound recognition, and infra-red and ultraviolet sensor technologies.

We generally seek patent protection on any new technology developed by us. We utilize these proprietary technologies in providing our customers with ready-made applications for integration into their products. In addition, we may also license our technologies, where appropriate, in return for patent royalty income. As at the Latest Practicable Date, we had filed 41 patent applications in the US, the PRC and EU for the designs and technologies we have developed, out of which 16 had been granted to us and the remaining being reviewed by the respective patent registration offices. From the experience of our Group, it is not uncommon to take more than three years to obtain

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government approvals for patent applications, in particular in developed countries such as the US and we generally took two to five years to complete a patent application. Given the aforesaid, we do not consider that we will have any difficulties in obtaining government approvals for our patent applications. For each of the two years ended 31 December 2008 and the six months ended 30 June 2009, our royalty license income accounted for approximately 5.2%, 6.8% and 6.7% of our turnover, respectively.

Our consumer electronic products are characterized by their low power consumption, Internet connectivity, multiple functionality, and flexible manufacturing process. We consider that these are 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. In addition, with our capability in developing firmware and software, we are able to integrate various technologies and applications in our solutions and 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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Our solutions and products are mainly based on our proprietary DSP technology. Our DSP technology, which uses self-developed algorithms, enables our devices to output quality sound with minimal data loss resulting from data compression. Since our incorporation in 1999, we have developed a portfolio of technologies for our customers. Our major milestones on product developments are as follows:

Year	Products
2000	Digital recordable jukebox – a home music appliance equipped with a 20GB hard disk drive, and user could transfer music from a PC, rip tunes into the jukebox's hard disk drive from an audio CD or MP3 CD
2001	Digital audio player with recording function
2003	Car digital recordable jukebox – derived from the home jukebox, the car jukebox is equipped with a detachable hard disk drive that can be used as an axillary music server at home 1.5-inch hard disk drive digital audio player – digital audio player with 1.5GB hard disk drive
2004	One-inch hard disk drive digital audio player – digital audio player with 1.5GB hard disk drive
2006	Portable media player ("PMP")
2007	SanDisk player with our own patented music library functions Digital photo frame
2008	Water-proof digital mobile television
2009	Well-being products – portable consumer electronic devices that integrate heart rate monitor, pedometer and MP3 player functions Netbook computers

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Current research and development projects

Well-being and fitness products

Following the success of the launch of our well-being and fitness products in 2009, we plan to furbish our well-being and fitness products with additional features that would appeal to end users. We have recently included Web 2.0 features into our well-being and fitness products, to upload the training program stored in our well-being and fitness products into Internet social networks, and to create an information sharing platform to promote the products.

In addition, new technologies are planned to be implemented into our well-being and fitness products. Our product which measures heart rate via an infra-red sensor inside the ear phones is expected to launch in 2010. On top of heart rate monitoring and pedometer, we plan to introduce additional biometric data such as fat, glucose and blood pressure measuring functions into our well-being and fitness products. In terms of connectivity, we plan to add GPS, Bluetooth and WiFi connectivity into our products as well.

Open source-based consumer electronic devices

Open source-based devices refer to devices which utilize open source-based operating system, instead of other non-open source-based operating system. While our Company's research and development in consumer electronic products does not switch from DSP-based devices to open source-based devices, we believe that open source operating system will become more and more popular among consumer electronic devices. We have commenced the research and development of open source-based solutions and products since 2008, with a focus on the development of open source-based multimedia Internet devices, smartphones, Internet televisions and netbook computers. The open source-based devices under development would still utilize the technological know-how of our Group including but not limited to DSP technology.

Research and development costs

Our research and development costs mainly include staff costs and direct materials costs. The table below sets out our research and development costs charged to the combined income statements during the Track Record Period:

	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)	
Staff costs and consultancy fees	19,018	19,059	9,233	6,251
Equipment and materials	5,344	7,215	2,979	750
	24,362	26,274	12,212	7,001

Our 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.

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SALES AND MARKETING

Sales and marketing department

Our sales and marketing department is located in our headquarter in Hong Kong, with also some staff stationed in our Shenzhen office and is mainly responsible for coordinating the sales, marketing and distribution of our products around the world. All of the sales are made through our sales office in Hong Kong. As at the Latest Practicable Date, we had 17 employees in our sales and marketing department. We seek to recruit marketing personnel which have technology or engineering backgrounds. For example, our Senior Vice President, Mr. Tao Hong Ming, has over 18 years of experience in the sales and marketing of consumer electronic devices. Furthermore, over 70% of our sales and marketing staffs possess Bachelor's or Master's degrees in electrical engineering, marketing or other related discipline.

Our sales and marketing efforts are organized to fulfill our overall strategic objectives. We position ourselves as a specialized firmware-based turnkey solutions provider and system integrator for DSP-based consumer electronic devices. Through our direct sales force and third party agents and distributors, we seek to identify and assess existing or potential market opportunities. Our sales and marketing department works closely with our research and development department and project management department to provide solutions and products that fulfill the needs of our customers, and to develop new solutions and products to obtain new business and new customers.

We participate in trade fairs and exhibitions in Hong Kong, such as the annual Hong Kong Electronic Fair, and other countries to promote our Company as well as our products. Some of our latest technologies are presented in these fairs and exhibitions, and we have been successful in acquiring new customers and obtaining orders for our products during these fairs and exhibitions. To complement our promotion effort in these fairs and exhibitions, we also arrange other marketing activities in the media in order to increase our publicity during the period when these trade fairs and exhibitions are held.

Sales

We have a worldwide market. Our sales are mainly derived from the US and Europe and denominated in US dollars and RMB. Set out below are the geographical breakdown, by shipment destination, of our sales of goods during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2007		2008		2008		2009	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Europe	241,287	42.1	62,096	12.3	59,663	41.2	54,877	41.8
US	230,072	40.1	21,806	4.3	6,701	4.7	16,091	12.3
Mainland China	94,172	16.4	415,712	82.2	75,447	52.1	11,166	8.5
Hong Kong	517	0.1	248	0.1	114	0.1	47,679	36.3
Others	7,263	1.3	5,615	1.1	2,778	1.9	1,466	1.1
Total	573,311	100.0	505,477	100.0	144,703	100.0	131,279	100.0

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Our sales of goods are mainly made through direct sales to international branded vendors, distributors and retailers, while we also sell through third party agents. These agents provide consultancy and support services to us in product planning, sales and marketing and customer support. As our agents represent only a small proportion of our sales and they usually focus on specific geographical areas and/or different types of customers and products, we do not consider the sales through agents to be in direct competition with our sales through direct sales. For the two years ended 31 December 2008 and the six months ended 30 June 2009, direct sales accounted for approximately 88.2%, 96.3% and 93.9%, respectively, of our total sales of goods, with the rest through agents. We also generate royalty income and research and development fee income from consumer electronic products OEMs.

For sales made through direct sales and third party agents, we maintain direct contact with the customers, while distributors are treated as our customers for the purpose of any sales made through them. We visit our existing and potential customers on a regular basis and as requested by the customers. Our sales and marketing, project management and research and development personnel participate at these meetings to ensure that we have a full understanding of the technical and business requirements and sales objectives of our customers. We also provide after sales support to our customers, while the warranty period of our products vary from product to product.

Pricing and credit policy

We price our solutions and products based on production costs and our expected profit margin, taking into account factors such as the complexity, technologies and features of the products and the prevailing market conditions. The market prices of certain components and materials, such as the hard disk drive and flash memory, are relatively volatile and may fluctuate significantly from time to time, and costs related to these components and materials are usually separated from our overall price quotations for our solutions and products to our customers.

Royalty fees are usually measured in terms of per unit sold by our customers, which is calculated based on our research and development cost and other related costs, the expected sales volume of the customers, plus a profit margin. Research and development and other service fees are calculated on a cost-plus basis.

We generally extend to our customers credit terms varying from 30 to 90 days, based on our relationships with the customers and the credit track record of the customers. Our average trade and bills receivables turnover days for the two years ended 31 December 2008 and the six months ended 30 June 2009 were 59.0 days, 104.5 days and 108.8 days, respectively. Some of our customers settle their bills by way of letters of credits while the others are settled with open accounts.

Our provision policy for doubtful trade and bills receivables is based on our assessment of the debtors' financial condition and the expected collectibility of the amounts due. For the two years ended 31 December 2008, the impairment of trade receivables charged to the combined income statements amounted to HK\$1.7 million and HK\$0.4 million, respectively, which was mainly related to our customers that were in financial difficulties. There was no such impairment for the six months ended 30 June 2009. No provisions were made for the trade receivables from our major customers during the Track Record Period.

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Our customers

Our customers primarily consist of group companies of leading international brand name vendors and retailers and manufacturers of consumer electronic products and health care devices, as well as consumer electronic product OEMs. For certain of our major customers, we must qualify as an authorized/qualified supplier before they place orders with us. Such qualification is generally based on whether a supplier meets the technical, performance and quality control standards set by such customers as well as international standards and other specific requirements demanded by such customers. During the Track Record Period, a majority of our customers are located overseas, in particular in the US and Europe, while we deal with their representatives in Hong Kong as well as those in the US and Europe. Having considered the immense potential of the PRC market, we plan to increase our sales and market efforts towards the PRC market.

We believe that developing strategic relationships with our customers is critical to our success. We identify and target industry leaders in the relevant industries with whom we believe we can develop such relationships. Forming strategic relationships with our customers enable us to participate in the product development of our customers at an early stage, thereby allowing our sales and marketing team and research and development team to work closely with our customers' product development team to better serve our customers' needs and be able to provide end-to-end solutions to our customers. We make constant contracts with our largest customer, which has worked with us since 2005, and usually are involved in the early stage of their product development, from as early as concept consultation. We assist this customer in technological feasibility studies and we are one of the largest solution providers for PMPs and digital audio players to this customer. We also participate in the product road map planning of this customer, so that we can keep abreast of the products to be produced by this customer in the next few years. We have not entered into any agreement in relation to the strategic relationships with our customers, and save for the costs incurred in developing the technologies and products for our customers, we did not incur any investment or development costs pursuant to such strategic relationships during the Track Record Period.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, revenue from our five largest customers accounted for approximately 76.4%, 97.4% and 91.3% of our turnover respectively, and revenue from our largest customer accounted for approximately 36.8%, 82.4% and 73.9% of our turnover respectively. None of our Directors, the chief executive, or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries or their respective associates (as defined under the GEM Listing Rules) had any interest in any of our five largest customers during the Track Record Period.

SUPPLIERS, RAW MATERIALS AND COMPONENTS

Raw materials and components costs comprise the largest portion of our cost of goods sold. For the two years ended 31 December 2008 and the six months ended 30 June 2009, raw materials and components costs accounted for approximately 92.0%, 97.1% and 96.7%, respectively, of our cost of goods sold. Key raw materials and components used include PCBAs, ICs, plastic components, batteries and LCDs.

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Our main suppliers include manufacturers in the PRC, Hong Kong, Korea and Taiwan. We order raw materials and components from our suppliers through purchase agreements and purchase orders, with payment terms generally ranging from 30 days to 75 days. Our purchases are mainly made in RMB and HK dollars. Historically, we generally purchased raw materials and components when we received orders from our customers in order to control our inventory risk. Currently, we usually require our subcontractors to purchase most of the raw materials and components directly according to our requirements in order to further reduce our inventory risk. Occasionally, we purchase raw materials and components, mainly flash memories and ICs, based on our forecast of orders. For ICs, we have been working closely with the IC manufacturers regarding technological cooperation and therefore there is a strategic reason for us to purchase ICs from these IC manufacturers directly. As for flash memories and other raw materials and components, in the case where only the approved or accredited buyers can purchase, such raw materials and components are bought by us and delivered to the subcontracting OEMs for manufacturing and assembly.

We have entered into subcontracting arrangements with our designated subcontracting OEMs. For these subcontracting OEMs, we set out specific manufacturing process guidelines and material workflow that cater to our customers' requirements for them to follow. For certain key customers, the appointment of such subcontracting OEMs requires the customers' consent. Our engineering staff and our quality assurance staff are stationed in such subcontracting OEMs, monitoring the entire production process and performing quality control for our products. In addition, we set up offices at the factories in these subcontracting OEMs for DRM purpose. DRM technology, commonly used by major digital consumer electronics vendors and online content providers, refers to any technology which control use of digital media by preventing access, copying or conversion to other formats by end users. To cater for DRM, our firmware and hardware have to be specially designed to allow encrypted algorithm to be stored in the products in order to detect and prevent unauthorized distribution of copies of copyrighted digital media. Up to the Latest Practicable Date, we have not experienced any material shortage of raw materials or components.

During the Track Record Period, we worked with one subcontractor in the year ended 31 December 2007 and two subcontractors in each of the year ended 31 December 2008 and the six months ended 30 June 2009. Our subcontractors have all been certified by certain of our customers and except for one subcontractor which closed down its business in 2008, our subcontractors have all been operating in the PRC for over 11 years. We determine the subcontracting charges based on a fixed price per product sold by the subcontractors. The subcontracting charges are normally settled within 90 days. Both we and the subcontractors are able to terminate our business relationship upon the default of the other party with an advanced notice for a period of three months.

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. As an interim measure, we subcontracted certain processes, such as the manufacturing of PCBA 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 while we continued focusing on the design and

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development of embedded firmware and applications. In 2009, we assisted such subcontracting OEM to obtain the approval of one of our key customers and we were able to resume providing "end-to-end" solutions to this particular customer in 2009. We did not receive any claim for compensation from any of customers arising from this incident and our arrangements. Since 2009, we have an internal policy of hiring at least two subcontracting OEMs and ensuring that they have reserved production capacity in order to mitigate our reliance on any particular subcontracting OEM. Also, by hiring multiple subcontracting OEMs, we also mitigate the risk of material shortage and insufficient capacity of any particular subcontracting OEMs.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, purchase from our five largest suppliers accounted for approximately 60.4%, 73.2% and 81.7% of our total purchases, respectively, and purchase from our largest supplier accounted for approximately 36.3%, 48.5% and 61.3% of our total purchases, respectively. None of our Directors, the chief executive, or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries or their respective associates (as defined under the GEM Listing Rules) had any interest in any of our five largest suppliers during the Track Record Period.

QUALITY ASSURANCE

We are committed to maintaining and improving quality standards, and have implemented policies and procedures to ensure that our solutions and products meet the expectations of our customers and have a low defect rate. We provide product warranty on our products which varies from product to product ranging from periods of 12 months to 18 months. In the event of warranty claims during the warranty period, we shall either provide our customers, free-of-charge, with replacement parts at our expense or compensate our customers for the unit price of the products. We consider the quality of our solutions and products provided are key to our success. We have stringent standards for selecting our subcontracting OEMs and normally require the subcontracting OEMs to obtain ISO and ROHS quality certifications for its quality management systems and products respectively. In addition, we carry out our quality assurance procedures by on site monitoring at the factories of the subcontracting OEMs.

Located in our subcontracting OEMs, our quality assurance procedures are carried out at three stages of the manufacturing process:

Incoming quality assurance

We conduct our incoming quality assurance inspection through random sample checking upon delivery of the raw materials and components at the subcontracting OEM's site to ensure that they meet our quality requirements, on top of the quality assurance procedures performed by the subcontracting OEMs. All raw materials and components that do not meet our quality standards and requirements are returned to the suppliers for replacement or refund. During the Track Record Period, we returned raw materials and components to the suppliers due to unsatisfactory standard, however, we consider the amount of returns as immaterial.

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2In-process quality assurance

We maintain in-process quality assurance inspection at various control points within the manufacturing process. Visual inspection and performance tests are conducted to ensure that the semi-finished products meet our quality requirements.

Outgoing quality assurance

We check each shipment of finished products prior to their delivery to our customers. Products which do not meet our quality standards, which is set based on our customers' standards as well as the relevant international standards, will be returned to the factories of the subcontracting OEMs for re-working and are subject to the same inspection and performance testing again.

We obtained the ISO9001:2000 certification for our quality management in 2008. In the past, we received praises and accreditation from our customers regarding our quality of solutions and products provided.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, the average return rate for our products from our customers was approximately nil, 0.4% and 0.2%, respectively. We believe our level of defects is in line with the industry norm and conforms to the quality requirements of our customers.

COMPETITION

We operate in a highly competitive industry characterized by intense competition, cyclical changes, rapid technological development, short product life-cycles and evolving industry standards. Our competitors are solution providers who specialize in DSP technology, and also other large manufacturers who possess the research and development ability located in different parts of the world. Some of our competitors have substantially greater size, greater brand names, greater access to capital, longer or more established history, stronger research and development capabilities and marketing resources than we do. In addition, we also compete with smaller niche players in the PRC, Hong Kong and other countries.

Our direct competitors are mainly based in Hong Kong, Shenzhen, the PRC and Taiwan, which include both listed and non-listed companies. According to the information provided in some of our competitors' websites, they are generally of larger size and scale, with a greater number of employees when compared to our Group and, unlike our Group, they usually own their own manufacturing facilities. For example, one of our direct competitors recorded over US\$350 million of revenue in 2008, according to its annual report for the year ended 2008. These competitors usually provide OEM/ODM solutions for portable digital products, such as digital audio players, digital photo frames and GPS devices. Furthermore, they provide other household digital products such as Internet streaming appliances, flat panel television products, digital set-top boxes, home audio-video devices, and DVD-related products and acoustical systems. Most of our direct competitors have longer operating history than our Group.

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As we provide solutions to certain international brand name vendors, we are also indirectly in competition with other international brand name vendors, including the market leaders in the global consumer electronics market. These brand name vendors produce a wide spectrum of consumer electronic devices, ranging from digital audio players, portable media players, computers, webcams, speaker systems, to communications, video game consoles, and information technology products for the consumer and professional markets.

For our well-being and fitness products, we are in direct competition with companies that produce similar products, including the worldwide leaders in the MP3 player market. Furthermore, we are in competition with companies that manufacture heart rate monitors and pedometers. These companies, headquartered in the US, Europe and Japan, are usually of much larger size and scale and history and have a global sales and distribution network.

The principal factors of competition in our industry include product features, speed of innovation, quality, technological capabilities, service and pricing. To maintain and enhance our competitive advantages, we seek to continue to provide technologically advanced design and offer tailor-made solutions in a timely manner, maintain the quality of our products and provide competitive pricing to our customers.

We compete with these competitors for similar type of target customers, such as the international leading brand name vendors, retailers and manufacturing OEMs. Our core competence is our technological advancement. We consider ourselves having a competitive advantage in terms of functionality of our products. We pride ourselves of our ability to offer advanced features or newly introduced functions to our customers such as Facebook connectivity and YouTube download function in our recent products, and our ability to integrate different technologies into our consumer electronic products. For example, our well-being and fitness products are unique in utilizing our patented proprietary technologies, namely the biometric measurement functions. Another factor that differentiates ourselves from our competitors is that our solutions support DRM, which is a technology attempting to control use of digital media by preventing access, copying or conversion to other formats by end users. With DRM, we are able to provide solutions to products that have audio and video downloading functions, such as Rhapsody and Napster-to-go. We aim at providing these additional features in our products at prices which are not substantially higher than the prevailing market price.

In terms of distribution channel, we compete directly with our competitors. However, we also utilize the connections and the networks of our sales and marketing personnel to further our business. From time to time, we leverage on the networks of our Directors in the academic field to explore new markets that are not easily accessible to outsiders.

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INSURANCE

We currently maintain the following insurance policies:

- transportation and vehicle insurance policies;
- property damage insurance for our stock in trade in our office located at Flat A and C, 8th Floor, Shaw House, Lot 220, Clear Water Bay Road, Hong Kong;
- comprehensive export credit insurance against the failure of our customers to pay all or part of the invoice value of our goods;
- commercial liability insurance against losses related to bodily injury and property damage liability arising from our products worldwide and losses related to first party and third party products recall expense; and
- office package insurance against material damage, business interruption, public liability and employees' compensation, etc.

We consider that our insurance policies are adequate and in line with industry norm. During the Track Record Period and up to the Latest Practicable Date, we have not received any material claims from third parties in relation to the use of our products or third party liability.

ENVIRONMENTAL PROTECTION

We emphasize environmental protection. We were granted an ISO 14001 certification for our environmental management in 2008.

We do not operate any manufacturing facilities, and in general our business operations do not result in the production of harmful pollutants. However, we are still subject to various PRC national and local environment laws and regulations with respect to environmental protection, including 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC*), 中華人民共和國水污染防治法 (the Law of Prevention and Control of Water Pollution of the PRC*), 中華人民共和國大氣污染防治法 (the Law of Prevention and Control of Atmospheric Pollution of the PRC*), 中華人民共和國環境噪音污染防治法 (the Law of the Prevention and Control of Noise Pollution of the PRC*), 中華人民共和國固體廢棄物污染環境防治法 (the Law of the Prevention and Control of Solid Waste Pollution of the PRC*) and 建設項目環境保護管理條例 (the Administrative Regulations on Environmental Protection for Construction Project*), and Hong Kong environmental laws and regulations related to our operations.

* For identification purposes only

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We have complied with the applicable laws and regulations on environmental protection in all material respects and as of the Latest Practicable Date, we had not been subject to any material fines or legal actions involving non-compliance with any relevant environmental regulations, nor were we aware of any threatened or pending actions by any environmental regulatory authority in any of the jurisdictions where we operate. During the Track Record Period, the annual costs of compliance with the applicable laws and regulations on environmental protection did not have a material impact on the results of our operation and we are not expected to bear any material cost of compliance going forward.

PROPERTY

We lease properties for use in our business operations.

We lease properties in Hong Kong for our headquarters, where our management, sales and marketing department, finance department, project management department, research and development department and administration department are located. We lease properties in the PRC for our research and development department, our material management department, our quality assurance department, our packaging design and custom department and our product support department, while we also leased two office areas in our subcontracting OEMs as DRM offices. Our leased properties have a total gross floor area of approximately 24,204 sq.ft., which account for the entire gross floor area of the properties used in our business operations. All of our properties are leased from Independent Third Parties.

As confirmed by our property valuer, Greater China Appraisal Limited, the rental payments for our leased properties are based on prevailing market rates. We do not own any manufacturing facilities and our business operations do not require special design and conditions for the properties to be used for our business operations, and the equipment and furniture used in our offices are not fixtures and can be relocated. As such, we do not believe that it would be difficult for us to relocate to other comparable properties in Shenzhen, the PRC or Hong Kong to carry on our business at comparable rental rates and we believe the cost of such relocation would not be material.

INTELLECTUAL PROPERTIES

We rely on a combination of patents, trade secret laws, as well as non-disclosure agreements, internal security systems and policies and other methods to protect our intellectual property. Our employees are required to sign an employment agreement which prohibits the disclosure of any of our proprietary technologies to any third parties.

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. Currently, all of our products are manufactured in the PRC and our intellectual properties in relation to these products are protected to the extent that patents are granted to us in the PRC. We will continue to actively apply for patent registrations for our designs and technologies in the PRC, where our products are manufactured. As at the Latest Practicable Date, 25 out of the total 41 patents we have

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applied for are in the PRC. Our patents in the US and EU primarily serve to protect our intellectual properties against infringement by others in those markets. While any patent applications are ultimately subject to approval by the relevant government agencies, we have not encountered any difficulties or delays in obtaining such government approvals that we consider uncommon based on our experience. If we are unsuccessful in obtaining such approvals, we will not enjoy the protection provided by a patent in the relevant jurisdiction in respect of the relevant technology. Consequently, others may legally utilize our designs and technologies without our permission, which may adversely affect demand for our products and hence our results of operations. Further details of our intellectual property rights are set out in Appendix VI to this document. 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 biometric parameters and distance travelled during exercise, fitness MP3 players, apparatus and method of controlling media player with pedometer apparatus and method of adjusting the accuracy of three-axis accelerometer.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operation result of financial condition.