You should read the following discussion and analysis of our Group's financial condition and results of operations together with our combined financial statements for each of the two years ended 31 December 2008 and the six months ended 30 June 2009 and the accompanying notes included in the Accountants' Report set out in Appendix I to this document. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this document.

OVERVIEW

We specialize in providing embedded firmware and "end-to-end" turnkey solutions to our customers mainly for their DSP-based consumer electronic devices. The end products which utilize our technologies, include (i) well-being and fitness products which are media player featuring biometric measurement functions such as heart rate monitors and pedometers functions; (ii) personal portable entertainment devices, such as portable media player and digital audio players; and (iii) other "life-style" consumer electronic devices such as mobile phones, multimedia Internet devices, digital photo frames, digital mobile televisions and netbook computers. Please refer to the section headed "Business" in this document for details.

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.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Group resulting from the Corporate Reorganization is regarded as a continuing group. Accordingly, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period have been prepared and included the financial information of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of our Group as at 31 December 2007, 31 December 2008 and 30 June 2009 have been prepared to present the assets and liabilities of our Group as at those dates as if the current group structure had been in existence at those dates.

FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Global demand for consumer electronic devices

We provide solutions mainly to group companies of international leading consumer electronics brand name vendors, retailers and distributors and OEMs of consumer electronic devices. Our results of operations are therefore directly affected by the global consumption of consumer electronic devices. The demand for consumer electronic devices is generally dependent upon, among other factors, the social and economic conditions of various places in the world, and in our case, mainly in the US and Europe. The demand for consumer electronic devices is also dependent on the evolving technologies in the consumer electronics industry. The higher the speed of technological advancement in the consumer electronics industry, the faster the existing products becoming obsolete and therefore the higher demand for new and more innovative products. We believe that a key to our success is our ability to identify technological and market trends and to develop new technologies and designs to meet the changing end-customer needs.

Types of services provided

Our operating results are affected by the services provided. We provide different services along the design supply chain to our customers for digital consumer electronic devices, and our revenue depends on the services we actually provide. We charge customers for our services based on a number of factors, such as the sales volume of the order, the complexity of the products, the particular services we provide and the relationship with the customers. Our revenue, in general, increases when the type of services along the design supply chain we provide increases. Furthermore, the types of services provided also affect our gross profit margin. In general, we derive the highest gross profit margin by receiving royalty income, where the cost of sales is minimal, while the gross profit margin of service income for the rendering of research and development and other services to our customers is also, in general, higher than that of the sale of products.

Product mix

Our operating results are affected by our product mix. Our gross profit margin varies with different products. In general, the gross profit margin of our products increases with the technological know-how involved increases. In addition, the gross profit margin of our well-being and fitness products is higher than our other products, due to our proprietary technologies in heart rate monitoring and pedometer functions. It is our strategy to aggressively promote our well-being and fitness products and other products that features more technological know-how in the future.

The table below sets out the information of our major finished products, royalty income and service income during the Track Record Period.

		For the year ended 31 December				For the six months ended 30 June			
		2007		2008		2008		2009	
Finished products		**Sales**	**Gross profit margin**	**Sales**	**Gross profit margin**	**Sales**	**Gross profit margin**	**Sales**	**Gross profit margin**
	Notes	*HK$'000*		*HK$'000*		*HK$'000* (unaudited)		*HK$'000*	
Well-being and fitness products		–	–	–	–	–	–	8,919	27.7%
Personal portable entertainment devices		464,255	15.6%	87,100	20.0%	68,030	18.5%	97,156	10.9%
"Life-style" consumer electronics devices		22,238	5.1%	2,657	3.9%	1,187	6.6%	1,194	20.1%
	(i)	486,493	15.1%	89,757	19.6%	69,217	18.1%	107,269	12.4%
Royalty income		32,331	100%	37,713	100%	15,133	100%	9,954	100%
Rendering of services	*(ii)*	11,096	89%	12,590	75%	5,824	86%	6,504	87%

Notes:

(i) The overall gross profit margin for sale of finished goods increased in the year ended 31 December 2008 as compared to the year ended 31 December 2007 mainly because of the introduction of new customers during the second half of 2007 and the year 2008 where the personal portable entertainment devices were able to be sold at a higher profit margin.

The gross profit margin for sale of finished goods decreased in the six months ended 30 June 2009 as compared to that in the year ended 31 December 2008 mainly because of the impact of the global economic downturn, which led to the price reduction of our finished products sold to our customers.

(ii) The gross profit margin of service income varies on a project by project basis. The decrease in gross profit margin in the year ended 31 December 2008 mainly because of the impact of global economic downturn towards the end of 2008, which led to the price reduction on the services rendered to our customers.

Seasonality factors

Our revenue has been affected by the seasonality of the orders we receive. We generally receive more order in the third quarters and in particular the fourth quarters than in the first and second quarters of the year. We believe the reason for this is the traditional peak season in sales in the consumption market in the fourth quarter of the year in the US and Europe.

The following table sets out the seasonality trend of our revenue during the Track Record Period.

	For the year ended 31 December				**For the six months ended 30 June 2009**
	2007		**2008**		
	HK$'000	%	*HK$'000*	%	*HK$'000*
First quarter	52,536	8.5	76,587	13.8	55,446
Second quarter	72,757	11.8	89,074	16.0	92,291
Third quarter	152,014	24.7	209,971	37.8	–
Fourth quarter	339,431	55.0	180,148	32.4	–
	616,738	100	555,780	100	147,737

Changes in our customer base

Our revenue is affected by our customer base. Our top five customers 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. Our sales is dependent on the orders from our top five customers. We have been a qualified supplier for one of the leading international consumer electronics brand name vendors since 2005 and such customer had been our largest customer during the Track Record Period. Sales to this customer accounted for 36.8%, 82.4% and 73.9% of our total revenue for the two years ended 31 December 2008 and six months ended 30 June 2009, respectively. Although the respective share of revenue represented by our top five customers may change in the long-run, however, we expect that we will continue to generate a large portion of our revenue from our current five leading customers.

Also, different customers require different services, changes in our customers profile would affect the relative contribution of our types of services to our revenue and gross profit. While we provide "end-to-end" turnkey solutions to the leading international consumer electronics brand name vendors and other international retailers, for some of our customers which are mainly manufacturing OEMs, we only license our designs and/or technologies and receive royalty income.

Taxation

We are a Cayman Islands company, and is not subject to income tax in the Cayman Islands and dividends paid by our Company is not subject to withholding taxes under Cayman Islands laws.

Our subsidiary, PD (BVI), is incorporated in the British Virgin Islands, and is not subject to income tax in the British Virgin Islands and dividends paid by PD (BVI) is not subject to withholding taxes under British Virgin Islands laws.

Our subsidiaries, PD (HK) and PD Trading, are incorporated in Hong Kong and are subject to tax based on profits arising in or derived from Hong Kong. Hong Kong profit tax is calculated at a rate of 17.5% for the year ended 31 December 2007 and 16.5% for the year ended 31 December 2008 and the six months ended 30 June 2009.

Our subsidiary, PD Shenzhen, is a wholly foreign owned enterprise established in the PRC and is subject to PRC income tax. Under the PRC Foreign Investment Enterprise and Foreign Enterprise Income Tax law promulgated on 9 April 1991, the standard statutory PRC national income tax rate for foreign invested enterprises ("**FIEs**") was 33%. On 16 March 2007, the National People's Congress promulgated the PRC Government enacted the PRC Enterprise Income Tax law, under which most domestic enterprises and FIEs are subject to a uniform income tax rate of 25%. The PRC Enterprise Income Tax law came into effect on 1 January 2008 and superseded the previous income tax law. The PRC Enterprise Income Tax Law consolidates the previous two separate tax regimes for domestic enterprises and FIEs and imposes a unified corporate income tax rate of 25% for both type of enterprises. Under the PRC Enterprise Income Tax law, those enterprises established prior to 16 March 2007 and enjoy low preferential tax rate in accordance with the tax laws and administrative regulations may, pursuant to the provisions of the State Council, gradually transit to the tax rate of 25% within five years of the implementation of the PRC Enterprise Income Tax law. Enterprises that enjoy a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until expiry after the implementation of the PRC Enterprise Income Tax law; and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment commences from 1 January 2008.

PD Shenzhen was established and operating in the Shenzhen Special Economic Zone of the PRC and was subject to the income tax rate of 15% for the year ended 31 December 2007. Pursuant to the PRC Enterprise Income Law, PD Shenzhen was and will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively.

For the two years ended 31 December 2008 and the six months ended 30 June 2009, our effective tax rate was 22.8%, 35.6% and 22.2%, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our combined financial statements requires management to make judgments, estimates and assumptions that effect the carrying amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following sets out certain critical accounting policies that our management considers to be critical in the portrayal of our financial position and results of operations:

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Sale and subsequent purchase of inventory with the same counterparty that are entered into in contemplation of one another are considered to be a single nonmonetary transaction. As such, revenue is not recognized for sale of inventory to the counterparty under such transactions;

(b) from the rendering of services and handling income, when the corresponding services are rendered;

(c) royalty income, when the relevant goods are sold; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Research and development costs

All research costs are charged to the income statement as incurred.

Development expenditure incurred on projects to develop new products is capitalized and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortized using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Provision for impairment on trade and other receivables is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that our Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Impairment on non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

SUMMARY RESULTS OF OPERATIONS

The following table sets forth the combined income statements of our Group for the two years ended 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009, which are derived from our combined income statements included in the Accountants' Report set out in Appendix I to this document.

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

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue is mainly derived from the sale of our products. We also receive royalty income by licensing our designs and technologies and we earn service income by providing research and development and tooling services to our customers. Our customers mainly comprised of leading international consumer electronics brand name vendors, retailers, distributors and OEM of consumer electronic devices.

The following table sets out a breakdown of our revenue for 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

We provide turnkey solutions and products to our customers, and we generate the majority of our revenue from the sale of products. Our sale of products experienced a general decline in 2008 as a result of the global economic downturn, in particular in two of our major markets, the US and Europe. The negative impact of the global economic downturn continued to affect our sales of products in the six months ended 30 June 2009.

We receive royalty income by licensing our designs and technologies to our customers that manufacture products based on our designs and/or technologies. The royalty income is determined based on a fixed rate per piece multiplied by the actual number of products sold by our customers.

We also receive income from providing principally research and development and other services to our customers. Such services are conducted and the service income is charged based on mutually agreed amounts on a project-by-project basis.

The following table sets out our revenue derived from the sales of well-being and fitness products, personal portable entertainment devices, "life-style" consumer electronics devices and semi-finished products and components during the Track Record Period:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Finished products				
Well-being and fitness products	–	–	–	8,919
Personal portable entertainment devices	464,255	87,100	68,030	97,156
"Life-style" consumer electronics devices	22,238	2,657	1,187	1,194
	486,493	89,757	69,217	107,269
Semi-finished products and components	86,818	415,720	75,486	24,010
Total	573,311	505,477	144,703	131,279

For the two years ended 31 December 2008, our revenue was mainly derived from the sales of personal portable entertainment devices, including portable media players and digital audio players, while we also recorded revenue from the sales of "life-style" consumer electronics devices. We launched our well-being and fitness products in the first half of 2009 and the sales of well-being and fitness products immediately became a significant portion of our revenue.

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

Our Group's sales were derived from our customers in different geographical markets. The following table sets out a breakdown of our sales of products by sales region for the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2007		2008		2008		2009	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'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

A majority of our sales of products are derived from the US and Europe. Our operating results therefore are very dependent on the economic and social conditions in these regions. For the year ended 31 December 2008, approximately 82.2% of our sales of products was derived in Mainland China. This was attributable to the change in our business arrangement, as semi-finished products and components were shipped to the customers' production facilities located in the PRC for assembly. For the six months ended 30 June 2009, sales to Hong Kong as a percentage of the total product sales increased significantly from 0.1% for the six months ended 30 June 2008 to 36.3%. This was primarily due to more finished products being shipped to Hong Kong as requested by our customers.

Our royalty income and services income are mainly derived in Hong Kong and Mainland China.

Cost of sales

Our cost of sales primarily consists of raw material and component costs and sub-contracting charges. The following table sets out a breakdown of our Group's cost of sales during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2007		2008		2008		2009	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Cost of sales								
Purchases of raw materials and components	448,981	90.9	442,069	96.0	119,209	92.2	114,683	97.7
Sub-contracting charges	26,333	5.3	5,271	1.2	4,355	3.4	517	0.4
Others	18,676	3.8	13,106	2.8	5,769	4.4	2,225	1.9
Total	493,990	100.0	460,446	100.0	129,333	100.0	117,425	100.0

We experienced a decrease in cost of sales, particularly in our sub-contracting charges, for 2008, which was primarily due to the change in our operation as a result of the closing down of one of our key subcontracting OEMs. As stated, instead of providing finished products, we shipped mainly semi-finished products and components to our customer without any assembly works. As such, we recorded a lower cost of sales during 2008. For the six months ended 30 June 2009, although we resumed providing turnkey solutions and finished products to our customers, we signed new subcontracting contracts with our subcontracting OEMs and the subcontracting charges incurred thereon are included as purchase costs of raw materials from these subcontracting OEMs according to the new subcontracting contracts.

Gross profit and gross profit margin

Our gross profit, which is our Group's revenue for the relevant period less cost of sales was HK$122.7 million, HK$95.3 million and HK$30.3 million for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our gross profit margin was 19.9%, 17.2% and 20.5% for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Gross profit decreased by approximately 22.3% from approximately HK$122.7 million for the year ended 31 December 2007 to approximately HK$95.3 million for the year ended 31 December 2008 and our gross profit margin decreased from approximately 19.9% for the year ended 31 December 2007 to approximately 17.2% for the year ended 31 December 2008. This was mainly attributable to global economic downturn and the change in our business arrangement as a result of the closing down of business of one of our key subcontracting OEMs in the first half of 2008. Instead of providing finished products, we provided semi-finished products and components to our customers for their further assembly. As such, less value added services were provided in 2008, which led to a decrease in our gross profit margin. We experienced a decrease in our gross profit margin for the six months ended 30 June 2009 of 1.4% from that for the six months ended 30 June 2008. Such decrease in our gross profit margins was mainly due to the decrease in royalty income, which was of highest gross profit margin among all components of our revenue for the six months ended 30 June 2009.

Our gross profit margin increased from 17.2% for the year ended 31 December 2008 to 20.5% for the six months ended 30 June 2009 mainly due to our resumption of the provision of "end-to-end" turnkey solutions and finished products to our customers since January 2009.

Other income

Other income comprises mainly handling income for the provision of rework and repair services to certain customers at the request of the customers after the shipment of the products. Other income amounted to approximately HK$729,000, HK$583,000 and HK$12,000 for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Research and development costs

Research and development costs mainly include staff costs and direct materials costs. The table below sets out our research and development costs for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Staff costs and consultancy fees	19,018	19,059	9,233	6,251
Equipment and materials	5,344	7,215	2,979	750
Total	24,362	26,274	12,212	7,001

Research and development costs (excluding deferred expenditure amortized) represented 4.0%, 4.7% and 4.7% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Based on our accounting policy, research and development costs can be capitalized and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. At the end of each reporting period, we would critically assess the fulfillment of the above capitalization criteria in respect of direct development expenditures incurred for each of our development projects. After our detailed assessment, certain of our development projects have met the above capitalization criteria during the year ended 31 December 2008 and the six months ended 30 June 2009 and, accordingly, the related development costs incurred were capitalized and deferred.

Selling and distribution expenses

Selling and distribution expenses mainly include staff costs, sales commission and transportation costs.

The table below sets forth our selling and distribution costs for the periods indicated.

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Staff costs	9,097	9,907	4,149	3,566
Sales commission	2,287	1,635	722	1,018
Transportation	4,199	755	231	213
Others	2,497	3,259	1,283	806
Total	18,080	15,556	6,385	5,603

Selling and distribution expenses represented 2.9%, 2.8% and 3.8% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our selling and distribution expenses as a percentage of our revenue had been maintained at a relatively stable level for the two years ended 31 December 2008 and increased for the six months ended 30 June 2009 compared to the six months ended 30 June 2008, which was primarily due to a decrease in our revenue as a result of the global economic downturn and an increase in sales commission as we hired more independent sales agents to promote our newly launched well-being and fitness products.

General and administrative expenses

General and administrative expenses mainly represented staff costs, rental expense, legal and professional fees and rental expenses.

The table below sets out our general and administrative expenses for the periods indicated.

	Year ended 31 December		**Six months ended 30 June**	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Staff costs	11,563	15,638	8,160	7,289
Legal and professional fees	3,274	2,194	1,000	1,061
Management consultancy fees	4,309	4,803	2,430	454
Rental expense	2,511	3,437	1,656	1,372
Depreciation	1,024	1,414	824	767
Others	3,397	4,492	2,116	1,274
Total	26,078	31,978	16,186	12,217

General and administrative expenses represented 4.2%, 5.8% and 8.3% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively.

During the Track Record Period, legal and professional fees mainly represented the application fees for patent registration. Management consultancy services provided by JL Limited and Prof. Tsui to us during the Track Record Period include, but not limited to, the provision of advice, information, assistance and support to us in the furtherance and development of our business, assist in strategic planning and exploring business expansion opportunities and general management advice. For the year ended 31 December 2008, our management consultancy fees remained fairly stable as compared to the year ended 31 December 2007. For the six months ended 30 June 2009, our management consultancy fees decreased significantly to approximately HK$0.5 million from approximately HK$2.4 million for the six months ended 30 June 2008, which was mainly attributable to the cessation of the provision of management consultancy service since April 2009 as part of our cost reduction measures.

Other expenses, net

Other expenses mainly represented impairment losses on property, plant and equipment and investments. Other expenses increased from HK$3.9 million in 2007 to HK$4.6 million in 2008 mainly because of the net effect of (i) the impairment losses on investments in an other financial asset and an available-for-sale investment amounting to HK$2.3 million and HK$0.5 million, respectively, in 2008; and (ii) the decrease in impairment losses on trade receivables amounting to HK$1.3 million in 2008.

On 4 January 2008, PD (HK) entered into a subscription agreement with a company incorporated in the United States (the "**US Company**"), pursuant to which, PD (HK) agreed to subscribe for a convertible promissory note (the "**Convertible Note**") with a principal amount of US$300,000 (equivalent to approximately HK$2.34 million, the ("**Note Amount**"). The US Company is principally engaged in the licensing and distribution of digital content. The Convertible Note bore an interest of 8% per annum, was repayable on demand any time on or after 30 September 2008 and was convertible into capital stock of the US Company after it successfully raised at least US$3,500,000 from other investors. We then considered that the business model of the US Company was viable and provided an investment opportunity within the industry. We were subsequently informed by the US Company in January 2009 that the US Company failed to complete its fund-raising exercise and was under liquidity pressure. As a result, the US Company was unable to pay certain expenditures, including salaries, and had closed down certain of its operations. The US Company further advised us that it only had minimal cash resources and incurred certain liabilities, such as convertible note, legal fees, consultancy fees and salaries, as of January 2009 with no revenue and recurring expenses since the suspension of its operations in September 2008. In addition, the Note Amount and the respective interest had not been settled to us since they were due on 30 September 2008. There is no other financial information regarding the US Company that could justify that we could recover the Note Amount. Based on the foregoing, we considered that the probability to recover the Note Amount was remote and accordingly, full provision of impairment was made against the investment in the US Company.

In November 2007, PD Shenzhen entered into an agreement with a company incorporated in the PRC (the "**PRC Company**") and certain subscribers. The PRC Company is principally engaged in wireless communication and consumer electronics related business, pursuant to which, PD Shenzhen agreed to subscribe for 625,000 convertible preference shares of the PRC Company (the "**CPS**") at RMB0.8 each. The CPS is convertible into ordinary shares at any time on a one-for-one basis. Subsequently in December 2007, PD Shenzhen paid RMB500,000 as registered capital of the PRC Company. We then considered that the business model of the PRC Company was viable and provided an investment opportunity within the industry and also a possible expansion of our business to the PRC market. Furthermore, we had intended to, through such investment to achieve synergy and vertical expansion as one of the key products of the PRC Company is FM radio ICs, which are widely used in our products. According to the management accounts of the PRC Company for the year ended 31 December 2008, the PRC Company sustained a loss for the year ended 31 December 2008 and was in a net liabilities position as at 31 December 2008. There is no other financial information regarding the PRC Company that indicates that the PRC Company's financial position has improved. In addition, it was noted from public news that the PRC Company was involved in a patent infringement dispute in early 2009 and we were uncertain on the profitability and viability of the PRC Company in the future. We also subsequently discovered that the PRC Company failed to file annual inspection documents to the relevant government authorities after 2007. Based on the foregoing, full provision of impairment was the made against the investment in the PRC Company.

It is our strategy to look for investment opportunities within the industry, with an aim to generate return and also a chance to expand our business. In the past, we did not have a formal investment policy and proper investment decision making procedures. After the [●], we intend to implement a formal investment policy which should detail the missions, objectives, any particular industries or businesses to be focused on, investment amounts, investment instruments, risk tolerance level, due diligence exercise and other procedures to be carried out and other investment measures for its future investments. Furthermore, we may seek advice from financial advisors, solicitors, professional accountants or other professional advisors on any identified merger and acquisition opportunities. We will continue to pursue merger and acquisition opportunities within the industry in order to further expand its business. Our Group 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.

Finance costs

Our finance costs mainly represent interest on bank loans. Finance costs represented 1.8%, 0.9% and 1.4% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. As at 31 October 2009, being the latest practicable date for the purpose of the indebtedness statement in this document, our total loans from banks amounted to HK$76.3 million, consisting of secured bank loans of HK$69.8 million and unsecured bank loans of HK$6.5 million. Please refer to the paragraph headed "Indebtedness" in this section for additional discussion. Interest rate fluctuations and the balance of our total borrowings may have a material adverse impact on our finance costs and thus affect our results of operations.

Tax

Tax represents amounts of income tax paid by us, at the applicable tax rates in accordance with the relevant law and regulations in Hong Kong and the PRC. We had no other tax payable in other jurisdictions during the Track Record Period. The applicable income tax rates for PD (HK) and PD Trading were 17.5%, 16.5% and 16.5% for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our Group's subsidiary established and operated in the Economic Zone of the PRC is subject to PRC corporate income tax rates of 15%, 18% and 20% for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Our effective income tax rates for the two years ended 31 December 2008 and the six months ended 30 June 2009 were 22.8%, 35.6% and 22.2%, respectively. The effective tax rate increased from 22.8% for the year ended 31 December 2007 to 35.6% for the year ended 31 December 2008 mainly because the proportion of the expenses not deductible for tax to profit before tax increased from 1.9% for the year ended 31 December 2007 to 5.8% for the year ended 31 December 2008, the underprovision of current tax of prior periods of HK$0.3 million, and release of deferred tax assets as a result of the reduction of applicable Hong Kong profits tax rate from 17.5% for the year ended 31 December 2007 to 16.5% for the year ended 31 December 2008.

The expense not deductible for tax during the Track Record Period mainly comprises impairment of items of property, plant and equipment, impairment of an other financial asset and non-deductible foreign exchange differences.

Dividends

Our Group did not declare any dividend for the two years ended 31 December 2008 and the six months ended 30 June 2009.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2008 compared to six months ended 30 June 2009

Revenue

Revenue decreased by approximately 10.9%, from HK$165.7 million for the six months ended 30 June 2008 to HK$147.7 million for the six months ended 30 June 2009, primarily as a result of the continuing of the global economic downturn affecting the demand for consumer electronics worldwide. Revenue from sales of products decreased by approximately 9.3%, from HK$144.7 million for the six months ended 30 June 2008 to HK$131.3 million for the six months ended 30 June 2009, primarily as a result of the weaker end-user sales of consumer electronics worldwide due to the global economic downturn in late 2008 and early 2009. Accordingly, revenue from sales of semi-finished products and components significantly decreased from HK$75.5 million for the six months ended 30 June 2008 to HK$24.0 million for the six months ended 30 June 2009. The decrease of sales of semi-finished products and components as a percentage of our total revenue is due to the change in business arrangement as we resumed the provision of "end-to-end" turnkey solution and finished products to our customers in 2009. Our royalty income was also affected by the weaker demand of our products and decreased by 33.8% from HK$15.1 million for the six months ended 30 June 2008 to HK$10.0 million for the six months ended 30 June 2009. There is no impairment to any related technology and capitalized development costs as a result of the decrease in royalty income during such period and no provision for impairment loss is required as our Group will continue to generate economic benefit from sale of relevant products, royalty income and service income. Service income increased by approximately 12.1%, from HK$5.8 million for the six months ended 30 June 2008 to HK$6.5 million for the six months ended 30 June 2009, primarily as a result of increasing demand for our research and development services during the six months ended 30 June 2009.

Cost of sales

Cost of sales decreased by approximately 9.2%, from HK$129.3 million for the six months ended 30 June 2008 to HK$117.4 million for the six months ended 30 June 2009, primarily as a result of the decrease in our revenue due to a weaker demand for consumer electronics worldwide for the six months ended 30 June 2009 as compared to the six months ended 30 June 2008. The decrease was also resulted from our improvement in our inventory management, which reduced our write-down of inventories from HK$4.7 million for the six months ended 30 June 2008 to HK$0.4 million for the six months ended 30 June 2009. It was also due to the decrease in subcontracting charges from HK$4.4 million during the six months ended 30 June 2008 to HK$0.5 million during the six months ended 30 June 2009 as we entered into new arrangement with our subcontracting OEMs in 2009, pursuant to which most of the raw materials were directly purchased by the subcontractors and we purchased from these subcontracting OEMs the semi-finished products after subcontracting work had been performed by them in 2009. Under such new arrangement, the subcontracting charges were embedded in the purchase costs of raw material and components and the subcontracting charges were reduced as agreed with the subcontractors. The rates of subcontracting charges ranged from HK$14.5 to HK$17.2 per unit and from HK$11.6 to HK$19.9 per unit during the six months ended 30 June 2008 and 2009, respectively.

Gross profit and gross profit margin

Gross profit decreased by approximately 16.5%, from HK$36.3 million for the six months ended 30 June 2008 to HK$30.3 million for the six months ended 30 June 2009, primarily as a result of the above factors. Gross profit margins decreased from approximately 21.9% for the six months ended 30 June 2008 to approximately 20.5% for the six months ended 30 June 2009, primarily due to the decrease in our royalty fee income and service income for the six months ended 30 June 2009, which are of higher gross profit margin than that of sale of products.

Other income

Other income decreased significantly by HK$464,840, or approximately 97.5%, from HK$476,932 for the six months ended 30 June 2008 to HK$12,092 for the six months ended 30 June 2009, primarily because no re-work and repair services were rendered during the six months ended 30 June 2009.

Research and development costs

Research and development costs decreased by 42.6%% from HK$12.2 million for the six months ended 30 June 2008 to HK$7.0 million for the six months ended 30 June 2009, primarily as a result of the increase in capitalization of research and development costs.

Selling and distribution expenses

Selling and distribution expenses decreased by 12.5% from HK$6.4 million for the six months ended 30 June 2008 to HK$5.6 million for the six months ended 30 June 2009, primarily as a result of the decrease in revenue and also certain cost saving measures including but not limit to cut in staff costs and tightening of the reimbursement policy on travelling expenses, which we implemented during the six months ended 30 June 2009.

General and administrative expenses

General and administrative expenses decreased by HK$4.0 million, or approximately 24.7%, from HK$16.2 million for the six months ended 30 June 2008 to HK$12.2 million in the six months ended 30 June 2009, primarily as a result of certain cost control measures implemented during the first half of 2009, including but not limited to cut in staff costs, legal and professional fees and the drop in rental expenses.

Finance costs

Our finance costs decreased by HK$0.6 million, or approximately 22.2%, from HK$2.7 million for the six months ended 30 June 2008 to HK$2.1 million for the six months ended 30 June 2009, primarily due to the decrease in the average balance of our bank loans and changes in the terms of our loans from related parties and a shareholder, which lowered our interest expenses under such loans, during the six months ended 30 June 2009.

Profit before tax

Profit before tax turned around from a loss of HK$1.7 million for the six months ended 30 June 2008 to a profit of HK$3.0 million for the six months ended 30 June 2009, primarily as a result of the factors described above.

Income tax

Income tax turned around from a tax expense of HK$0.3 million for the six months ended 30 June 2008 to a tax credit of HK$0.7 million for the six months ended 30 June 2009, primarily as a result of the write-back of an over-provision of income tax of HK$1.6 million in prior years made in the six months ended 30 June 2009.

According to the relevant PRC corporate income tax rule (i.e., tax circulars Guoshuifa [1999] No. 195 and Guoshuifa [1999] No. 229), if a creditor has not demanded the repayment of payables that remained unsettled for a period of more than two years, such balance shall be treated as taxable income of the debtor for PRC corporate income tax computation purposes. Accordingly, a PRC corporate income tax provision of approximately RMB1.4 million was made during the year ended 31 December 2007 in respect of certain payables of PD Shenzhen owed to PD (HK) that remained unsettled for a period of more than two years as higher liquidity was needed to fund certain of PD Shenzhen's expansion plans, including the research and development operations. The payables had no fixed terms of repayment. Such provision amounting to approximately HK$1.6 million was written-back during the six months ended 30 June 2009 when the related outstanding payables were cleared.

Net profit

Net profit from operations turned around from a loss of HK$2.0 million for the six months ended 30 June 2008 to a profit of HK$3.7 million for the six months ended 30 June 2009, primarily as a result of the factors described above.

Year ended 31 December 2007 compared to year ended 31 December 2008

Revenue

Revenue decreased by approximately 9.9%, from HK$616.7 million for the year ended 31 December 2007 to HK$555.8 million for the year ended 31 December 2008, primarily as a result of the global economic downturn which began in late 2008.

Revenue from sales of our products decreased by approximately 11.8%, from HK$573.3 million for the year ended 31 December 2007 to HK$505.5 million for the year ended 31 December 2008. Among sales of products, sales of finished goods accounted for 84.9% of our total sales of products for the year ended 31 December 2007 while sales of finished goods accounted for only 17.8% of our total sales of products for the year ended 31 December 2008, following our change of our business arrangement as mentioned above. Our royalty income and service income recorded a respective 16.6% and 13.5% increase. The increase in royalty income was partly due to the change of our business arrangement in 2008 whereby we increased licensing our designs and technologies to manufacturers to manufacture products based on our designs and technologies. The substantial increase in service income was because we obtained certain new orders to perform research and development services for one of our customers.

Cost of sales

Cost of sales decreased by approximately 6.8%, from HK$494.0 million for the year ended 31 December 2007 to HK$460.4 million for the year ended 31 December 2008, primarily as a result the change in our business arrangement from providing "end-to-end" solutions and delivering finished products in 2007 to delivering semi-finished products with our embedded firmware and applications, which required less assembly work and testing procedures and hence lower subcontracting changes. The decrease was also resulted from the improvement of our inventory management which reduced our write-down of inventories from HK$11.2 million in 2007 to HK$7.1 million in 2008.

Gross profit and gross profit margin

Gross profit decreased by approximately 22.3%, from HK$122.7 million for the year ended 31 December 2007 to HK$95.3 million for the year ended 31 December 2008, primarily as a result of the above factors. Gross profit margins decreased from approximately 19.9% for the year ended 30 December 2007 to approximately 17.2% for the year ended 30 December 2008, primarily due to the change of our mode of operation as we sold mainly raw materials and components to our customers, which were of lower profit margins, instead of finished products.

Other income

Other income decreased by HK$146,468, or approximately 20.1%, from HK$729,186 for the year ended 31 December 2007 to HK$582,718 for the year ended 31 December 2008, primarily as a result of the decrease in our re-work and repair services rendered in 2008.

Research and development costs

Research and development costs increased by approximately 7.8% from HK$24.4 million for the year ended 31 December 2007 to HK$26.3 million for the year ended 31 December 2008, primarily as a result of our effort in developing the well-being and fitness products, which were subsequently launched in 2009.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 13.8% from HK$18.1 million for the year ended 31 December 2007 to HK$15.6 million for the year ended 31 December 2008, which was primarily due to the decrease in freight charges as a result of our change of business arrangement during this period resulting in us delivering our semi-finished products to manufacturing plants in the PRC instead of directly delivering our finished products to the end user markets in US and Europe.

General and administrative expenses

General and administrative expenses increased by approximately HK$5.9 million, or approximately 22.6%, from HK$26.1 million for the year ended 31 December 2007 to HK$32.0 million for the year ended 31 December 2008, primarily as a result of the increase in staff costs as we added head counts and in particular certain senior management personnel for our business expansion during the year ended 31 December 2008.

Finance costs

Our finance costs decreased by HK$6.4 million, or approximately 57.1%, from HK$11.2 million for the year ended 31 December 2007 to HK$4.8 million for the year ended 31 December 2008 primarily due to the decrease in borrowing and also the change in the terms of the shareholders' loans, which lowered the interest rates under such loan agreements.

Profit before tax

Profit before tax decreased by HK$27.2 million, or approximately 68.2%, from HK$39.9 million for the year ended 31 December 2007 to HK$12.7 million for the year ended 31 December 2008, primarily as a result of the factors described above.

Income tax

Income tax decreased by HK$4.6 million, or approximately 50.5%, from HK$9.1 million for the year ended 31 December 2007 to HK$4.5 million for the year ended 31 December 2008, primarily as a result of the lower profit before tax in the year ended 31 December 2008.

Net profit

Net profit from operations decreased by HK$22.6 million, or approximately 73.4%, from HK$30.8 million for the year ended 31 December 2007 to HK$8.2 million for the year ended 31 December 2008, primarily as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been financed through a combination of shareholders' equity, cash generated from operations, shareholders' loan and bank borrowing.

The following table is a condensed summary of our combined statements of cash flows for the periods indicated:

	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net cash inflow from operating activities	22,509	29,083	19,840
Net cash outflow from investing activities	(6,164)	(19,468)	(4,144)
Net cash inflow/(outflow) from financing activities	10,983	(27,795)	(13,905)
Net increase/(decrease) in cash and cash equivalents	27,328	(18,180)	1,791
Effect of foreign exchange rate changes, net	3	469	–
Cash and cash equivalents at beginning of year/period	(4,965)	22,366	4,655
Cash and cash equivalents at end of year/period	22,366	4,655	6,446

Cash flow from operating activities

We derive our cash inflow from operations principally from the receipts for the sale of our products, royalty income and service income. Our cash outflow from operations is principally for payments for purchase of raw materials and staff costs.

For the six months ended 30 June 2009, we recorded net cash inflow from operating activities of approximately HK$19.8 million, which comprised operating profit before changes in working capital of approximately HK$8.1 million and adjusted for net working capital inflow of approximately HK$11.7 million. The decrease in net working capital was resulted from the tightening credit with our customers, causing a decrease in trade and bills receivables of HK$88.9 million. This was partially offset by the decrease in trade payables and other payables and accruals of HK$68.7 million and HK$3.1 million, respectively.

For the year ended 31 December 2008, we recorded net cash inflow from operating activities of approximately HK$29.1 million, which comprised operating profit before changes in working capital of approximately HK$31.9 million and adjusted for net working capital outflow of approximately HK$2.8 million. The net working capital outflow was the result of the decrease in trade payables of HK$18.3 million, the increase in inventories of HK$12.9 million and the decrease in an amount due to a director of HK$8.8 million. This was partially offset by the decrease in trade and bills receivables of HK$46.8 million.

For the year ended 31 December 2007, we recorded net cash inflow from operating activities of approximately HK$22.5 million, which comprised operating profit before changes in working capital of approximately HK$68.9 million and adjusted for net working capital outflow of approximately HK$46.4 million. The net working capital outflow was resulted from the increase in trade and bills receivables of HK$211.3 million and was partially offset by the increase in trade payables of HK$143.8 million.

Cash flow from investing activities

We derive our cash from investing activities primarily from proceeds of disposals of plant and machinery and interest income. Our cash outflow from investing activities is primarily for the acquisition of property, plant and machinery in connection with tooling, motor vehicles and office equipment and purchase of certain investments.

Net cash used in investing activities was approximately HK$4.1 million in the six months ended 30 June 2009. This was primarily due to the purchases of property, plant and equipment during such period.

Net cash used in investing activities was approximately HK$19.5 million in the year ended 31 December 2008. This was primarily due to the purchases of property, plant and equipment of HK$6.1 million and the purchase of an other financial assets of HK$2.3 million. This was partially offset by the proceeds received from disposal of property, plant and equipment of HK$0.3 million during the same period.

Net cash used in investing activities was approximately HK$6.2 million in the year ended 31 December 2007. This was primarily due to the purchases of property, plant and equipment of HK$5.8 million and the purchase of an available-for-sale investment of HK$0.5 million.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from new bank loans. Our cash outflow from financing activities is principally due to repayment of bank loans and interest.

For the six months ended 30 June 2009, we recorded net cash used in financing activities of approximately HK$13.9 million. The cash outflow mainly represented the net repayment of bank loans of HK$16.2 million and the repayment of loans from a related party of HK$1.6 million. This was partially offset by the increase in loans from a related party of HK$6.0 million.

For the year ended 31 December 2008, we recorded net cash used in financing activities of approximately HK$27.8 million. The cash outflow mainly represented net repayment of bank loans of HK$24.4 million and the repayment of loans from a related party of HK$6.6 million. This was partially offset by the increase in loans from a related party of HK$8.0 million.

For the year ended 31 December 2007, we recorded net cash generated from financing activities of approximately HK$11.0 million. The cash inflow represented the net receipts from new bank loans of HK$9.9 million and increase in loans from related parties of HK$11.0 million. This was offset by the payment of interest and bank charges of HK$9.9 million.

INDEBTEDNESS

The following table sets forth our indebtedness as at the end of each reporting period:

	As at 31 December		As at 30 June	As at 31 October
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current				
Bank overdrafts	3,849	4,701	2,803	6,525
Bank loans	96,242	71,819	55,607	69,800
Loans from related parties	26,165	27,615	31,980	10,402
	126,256	104,135	90,390	86,727
Non-current				
Loan from a shareholder	526	526	526	526

Approximately HK$38 million of our Group's bank borrowings will be repaid by [●] of the [●] upon the [●], the remaining bank borrowings are trade loans which are revolving in nature.

Except for certain bank borrowings amounting to approximately HK$69.0 million, HK$24.4 million, HK$40.0 million and HK$39.2 million as at 31 December 2007, 31 December 2008, 30 June 2009 and 31 October 2009, respectively, which are denominated in US dollars, all the bank borrowings of our Group are denominated in HK dollars.

Our Group's short term bank loans bore interest rates per annum ranging from 0.75% to 1.50% over HK dollar prime lending rate as quoted by the corresponding lending bank (the "**Hong Kong prime rate**") and 0.50% over US dollar prime lending rate as quoted by the corresponding lending bank (the "**US prime rate**"), as at 31 December 2007; ranging from 0.75% to 2.00% over Hong Kong prime rate and 0.50% over US prime rate as at 31 December 2008; ranging from 0.75% to 1.20% over Hong Kong prime rate and 0.50% over US prime rate, as at 30 June 2009; and ranging from Hong Kong prime rate to 1.20% over Hong Kong prime rate and 0.5% over US prime rate, as at 31 October 2009. Our Group's bank overdrafts bore interest rates per annum ranging from Hong Kong prime rate to 1.00% over Hong Kong prime rate, as at 31 December 2007; ranging from Hong Kong prime rate to 0.75% over Hong Kong prime rate, as at 31 December 2008; ranging from Hong Kong prime rate to 0.75% over Hong Kong prime rate, as at 30 June 2009; and ranging from Hong Kong prime rate to 0.75% over Hong Kong prime rate, as at 31 October 2009.

As at 31 October 2009, being the latest practicable date for the purpose of this indebtedness statement in this document, certain interest-bearing bank borrowings of our Group of HK$27.6 million were secured by the bills receivable of our Group. In addition, certain of our Group's interest-bearing bank borrowings were secured by:

(i) mortgages over certain properties situated in Hong Kong owned by JL Limited, a company wholly owned by Ms. Loh;

(ii) the pledge of certain deposits totaling HK$12 million of Dr. Lau;

(iii) the pledge of certain deposits of Mr. Heung, Lap Chi Eugene in an amount of not less than HK$6 million;

(iv) the pledge of the Group's certain deposits in an amount of not less than HK$5 million; and

(v) the pledge of cash deposits and/or securities of an aggregate amount not less than HK$10 million by Increasing Grace Limited, a company owned as to 33.3% by a family member of Dr. Lau.

As at 30 June 2009, certain interest-bearing bank borrowings of our Group of HK$22.3 million were secured by the bills receivable of our Group. In addition, certain of our Group's interest-bearing bank borrowings were secured by:

(i) mortgages over certain properties situated in Hong Kong owned by JL Limited;

(ii) the pledge of a deposit of HK$5,000,000 of Dr. Lau; and

(iii) the pledge of cash deposits and/or securities of an aggregate amount not less than HK$10 million by Increasing Grace Limited.

As at 31 December 2008, certain interest-bearing bank borrowings of our Group of HK$11.3 million were secured by the bills receivable of our Group. In addition, certain of our Group's interest-bearing bank borrowings were secured by:

(i) mortgages over certain properties situated in Hong Kong owned by JL Limited; and

(ii) the pledge of a deposit of HK$5,000,000 of Dr. Lau.

As at 31 December 2007, certain interest-bearing bank borrowings of our Group of HK$52.6 million were secured by certain trade receivables of HK$15.2 million and the bills receivable of our Group. In addition, certain of our Group's interest-bearing bank borrowings were secured by:

(i) mortgages over certain properties situated in Hong Kong owned by JL Limited; and

(ii) the pledge of certain investments owned by Dr. Lau, which was released on 16 June 2008.

As at 31 October 2009, our Group had banking facilities amounting to approximately HK$94.8 million, of which approximately HK$76.3 million were utilized and HK$18.5 million were undrawn. There are no material financial covenants relating to our outstanding debts.

In relation to the banking facilities granted to us, we have received a letter of confirmation from each of the relevant banks confirming, among other things, that as at the date of the respective letter provided that the status quo remains unchanged, it did not foresee that it would not continue to grant or renew the relevant banking facilities to us and that the relevant facilities had not been withdrawn and no notice had been served to withdraw the relevant banking facilities.

In addition, Dr. Lau, Mr. Heung, Lap Chi Eugene, the spouse of Ms. Leung, Yee Li Lana, who is the sole shareholder of UGH, a beneficial shareholder of our Company. Mr. Paulo Lam, a beneficial shareholder of our Company, and Increasing Grace Limited, which is owned as to 33.3% by a family member of Dr. Lau and as to 66.7% by an Independent Third Party, have provided personal, joint and several, or corporate guarantees for our Group's banking facilities up to an aggregate guarantee amount of approximately HK$133.8 million, HK$124.8 million, HK$118.8 million and HK$118.8

million as at 31 December 2007, 31 December 2008, 30 June 2009 and 31 October 2009, respectively. The personal guarantee provided by Mr. Paulo Lam for our Group's banking facilities was fully released during the year ended 31 December 2008.

In connection with certain banking facilities of our Group, a deed of undertaking (the "**Deed**") was entered, whereby (a) JL Limited undertakes not to recover certain loan amount due from PD (BVI) or re-assign the loan amount without the prior written consent of a creditor banker of our Group; and (b) PD (BVI) undertakes not to declare or distribute any dividends of more than 50% of its profit (if any) for each financial year.

The pledges of deposits of and/or certain properties and/or investments owned by Dr. Lau, Mr. Heung, Lap Chi Eugene or Increasing Grace Limited, all personal, joint and several, or corporate guarantees given by Dr. Lau, Mr. Heung, Lap Chi Eugene and Increasing Grace Limited and the Deed for our Group's banking facilities will be conditionally released or replaced by corporate guarantees provided by our Company upon the [●] of our Company's Shares on the [●].

The loans from related parties are unsecured, bore interest at Hong Kong prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited during the year ended 31 December 2007 and became interest-free starting from 1 January 2008, and have no fixed terms of repayment. The loans from related parties comprise a loan from JL Limited, a company beneficially owned by Ms. Loh, and a loan from Mr. Heung, Lap Chi Eugene.

The loan from a shareholder is unsecured, bore interest at Hong Kong prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited during the year ended 31 December 2007 and became interest-free from 1 January 2008, and is originally not repayable within 12 months from the end of the respective reporting periods.

The effective interest rate for the loans from related parties and a shareholder for the year ended 31 December 2007 was 7.4%. The loans from the related parties and a shareholder were non-interest bearing for the year ended 31 December 2008, the six months ended 30 June 2009 and the ten months ended 31 October 2009.

The loans from related parties and a shareholder, and the related accrued interests were settled in full subsequent to 30 June 2009 and prior to the date of this document, utilizing internal resources and certain bank borrowings.

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on property, plant and equipment and office equipment. For the two years ended 31 December 2008 and the six months ended 30 June 2009, we incurred capital expenditures on property, plant and equipment in the amounts of HK$5.8 million, HK$6.1 million and HK$0.8 million, respectively. The following tables sets out our Group's historical capital expenditures during the Track Record Period:

Historical capital expenditures	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Furniture, fixtures and office equipment	2,611	1,742	101
Machinery and equipment	347	825	–
Leasehold improvements	130	101	–
Toolings	2,671	2,973	571
Motor vehicles	–	462	143
Total	5,759	6,103	815

The capital expenditures for the two years ended 31 December 2008 are primarily related to the purchases of toolings and office equipment for our business operations. The capital expenditure for the six months ended 30 June 2009 is primarily related to the purchase of toolings.

COMMITMENTS

Our Group's contractual commitments are primarily related to the leases of our office premises and certain of our office equipment under operating lease arrangements.

Our Group's operating lease commitments amounted to HK$2.6 million in the aggregate as at 30 June 2009. The following table sets out the future minimum lease payments as at 30 June 2009 under non-cancellable operating leases falling due as follows:

	As at 30 June 2009
	HK$'000
Within one year	2,324
In the second to fifth years, inclusive	245
Total	2,569

NET CURRENT LIABILITIES

Details of our current assets and liabilities as at the end of the respective reporting periods are as follow:

	As at 31 December		As at 30 June	As at 31 October
	2007	**2008**	**2009**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets				
Inventories	3,353	9,168	7,966	12,588
Trade and bills receivables	241,400	195,168	106,371	323,560
Prepayments, deposits and other receivables	2,614	5,333	7,204	10,618
Due from a director	–	11,511	14,918	–
Pledged deposit	776	797	804	866
Cash and bank balances	26,215	9,356	9,249	7,809
	274,358	231,333	146,512	355,441
Current liabilities				
Trade payables	171,181	153,017	84,297	272,800
Other payables and accruals	21,902	17,735	14,660	14,036
Due to a director	8,753	–	–	
Loans from related parties	26,165	27,615	31,980	10,402
Interest-bearing bank borrowings	100,091	76,520	58,410	76,325
Tax payable	1,398	2,393	1,359	4,517
	329,490	277,280	190,706	378,080
Net current liabilities	(55,132)	(45,947)	(44,194)	(22,639)

We recorded combined net liabilities positions for most of the financial years/periods since 2002, partly as a result of the significant investments we made in research and development which generated limited amount of revenues in our Group's initial years of operations. Furthermore, as we mainly engage in the provision of embedded firmware and turnkey solutions without operating any manufacturing facilities, while outsource processes such as manufacturing, packaging and shipping to subcontractors, we do not require a heavy asset base to support our operation. Historically, our operation had been mainly supported by short term bank loans and banking facilities and loans from our shareholder and/or related parties (the "**Loans from a Shareholder and Related Parties**") thereby resulting in our net liabilities and net current liabilities positions. Our Group's operation and financial positions have significantly improved since 2007, which resulted in decreases in our net liabilities and net current liabilities positions.

As at 31 October 2009, being the latest practicable date for the purpose of this indebtedness statement in this document, we had net current liabilities of approximately HK$22.6 million. The components of our current assets as at such date included inventories of HK$12.6 million, trade and bills receivables of HK$323.6 million, prepayments, deposits and other receivables of HK$10.6 million, a pledged bank deposit of HK$0.9 million and cash and bank balances of HK$7.8 million. The key components of our current liabilities included trade payables of HK$272.8 million, other payables and accruals of HK$14.0 million, loans from related parties of HK$10.4 million, interest-bearing bank borrowings of HK$76.3 million and tax payable of HK$4.5 million. At the time of the [●], all Loans from a Shareholder and Related Parties had been repaid, waived and/or capitalized, while all personal and joint and several guarantees and asset pledges by our shareholders and/or related parties will be released. Our Directors believe that as our business continues to improve, together with the estimated proceeds from the [●] and the profits made by us since 1 January 2009 up to the Latest Practicable Date, we will record net assets and net current assets positions upon the completion of the [●].

Our net working capital improved during the six months ended 30 June 2009. We recorded a net current liabilities position of HK$44.2 million as at 30 June 2009, compared to a net current liabilities position of HK$45.9 million as at 31 December 2008. This improvement was primarily due to the decrease in trade payables and interest-bearing bank borrowings, partially offset by the decrease in trade and bills receivables as a result of our improved operating performance. During the period, we made use of the profits we earned to repay part of the bank borrowings.

Our net working capital improved during the year ended 31 December 2008. We recorded a net current liabilities position of HK$45.9 million as at 31 December 2008, compared to a net current liabilities position of HK$55.1 million as at 31 December 2007. This improvement was primarily due to the decrease in trade payables and interest-bearing bank borrowings, offset by the decrease in trade and bills receivables and cash and bank balances. During the period, we utilized our cash reserve and profits we earned to repay part of the bank borrowings.

The Directors consider that the working capital available to us is sufficient following the [●] having considered, among other things, the following:

(a) the [●] from the [●];

(b) our expected future sales;

(c) our expected net cash inflow from operating activities;

(d) the continual availability of banking facilities for us;

(e) no material change in the existing receipt and payment pattern of sales, other income, purchases and various operating expenses; and

(f) no material unforeseen capital expenditure and/or bad/doubtful debts.

It is our intention to (i) apply approximately HK$38 million from the [●] of the [●] towards repaying bank borrowings; (ii) repay, capitalize and/or waive the entire amounts due to related parties/shareholder in full before the [●]; and (iii) settle the trade payables and other payables using our internal resources and certain bank borrowings. We currently have no plans for external financing.

As at the Latest Practicable Date, save as disclosed herein, we have no material capital commitments and are not aware of any foreseeable material cash requirements.

INVENTORY ANALYSIS

Our inventories comprise raw materials, components and finished products. The raw materials which we use, including integrated circuit and flash memories, are stored in warehouses located at Hong Kong and the PRC. The value of our inventories accounted for approximately 1.2%, 4.0% and 5.4% of our total current assets as at 31 December 2007 and 2008 and 30 June 2009, respectively.

We typically manage our inventories on a "first-in, first-out" basis so that inventories first received are used first for production. As at 31 December 2007 and 2008 and 30 June 2009, our inventory levels, comprising mainly of integrated circuit and flash memories, were worth approximately HK$3.4 million, HK$9.2 million and HK$8.0 million, respectively. The following table is a summary of our balance of inventories at each of the reporting date during the Track Record Period:

	As at 31 December		**As at 30 June**
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials and components	3,353	9,071	7,966
Finished goods	–	98	–
Total	3,353	9,169	7,966

Our inventory balance has increased from HK$3.4 million as at 31 December 2007 to HK$9.2 million as at 31 December 2008. This was due to a write-down of inventories to net realizable value of HK$11.2 million for the year ended 31 December 2007 compared to only HK$7.1 million for the year ended 31 December 2008. The increase was also attributable to increased purchase orders received close to 31 December 2008. Up to the Latest Practicable Date, over 89.2% of the inventories as at 30 June 2009 were subsequently sold.

Our management performs regular review of the carrying amounts of inventories with reference to aged analysis of our Group's inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable value.

We used to procure all the raw materials for the manufacturing of its products in the past. Starting from 2008, we gradually outsourced most of the procurement function to the subcontracting OEMs and shifted the inventory risk to them, and therefore, in general, only integrated circuit and flash memories are procured and stored as our inventories. The written down inventories of approximately HK$11.2 million and HK$7.1 million for the two years ended 31 December 2008, respectively, represented obsolete raw materials purchased before 2007. After outsourcing of the procurement function, it is noted that the write-down of inventories for the six months ended 30 June 2009 was substantially decreased to only approximately HK$0.4 million and the age of the inventories as at 30 June 2009 was only within one year. We consider the current inventory control to be more effective in this regard and that the write-down of inventories for the two years ended 31 December 2008 should not make any bearing on the effectiveness of our inventory control.

The following table sets out our average inventory turnover days for the Track Record Period:

	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
Average inventory turnover days [(1)]	5.6	11.4	12.3

Note:

(1) Average inventory turnover days for the two years ended 31 December 2008 and the six months ended 30 June 2009 were computed by the average of the monthly net inventory balances for the year/period, divided by the cost of sales for the year/period and multiplied by 365/182.

We had maintained a healthy inventory turnover days ranging from 5.6 to 12.3 days for the two years ended 31 December 2008 and the six months ended 30 June 2009. The relatively higher inventory turnover days for the year ended 31 December 2008 and the six months ended 30 June 2009 was mainly due to the write-down of inventories to net realizable value of HK$11.2 million made for the year ended 31 December 2007. Under our business model, there is no need for us to store substantial amount of inventories.

TRADE AND BILLS RECEIVABLES ANALYSIS

Our trade and bills receivables as at 31 December 2007, 2008 and 30 June 2009 were HK$241.4 million, HK$195.2 million and HK$106.4 million, respectively, accounting for approximately 88.0%, 84.4% and 72.6%, respectively, of our total current assets. Our trade creditors and bills receivables were primarily related to the sale of our products to our customers.

The following table sets out the aging analysis of our trade and bills receivables that are not considered to be impaired at the end of each of the reporting dates:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Age			
Neither past due nor impaired	162,250	147,988	94,770
Less than 31 days past due	59,072	36,146	3,843
31 to 60 days past due	12,448	6,286	322
61 to 90 days past due	4,072	1,177	2,317
Over 90 days past due	932	1,539	4,141
Total trade receivables	238,774	193,136	105,393

We allow an average credit period generally ranging from 30 to 90 days for our customers.

Up to the Latest Practicable Date, over 97% of our trade and bills receivables as at 30 June 2009 were subsequently settled. For the two years ended 31 December 2008, we have made provision for impairment on trade receivables amounting to approximately HK$1.7 million and HK$0.4 million, respectively. Such impairment was related to those customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. There was no provision for impairment on trade receivables for the six months ended 30 June 2009.

The following table sets out our average trade receivables turnover days for the Track Record Period:

	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
Average trade receivables turnover days [(1)]	59.0	104.5	108.8

Note:

(1) Average trade receivables turnover days for the two years ended 31 December 2008 and the six months ended 30 June 2009 were computed by the average of the monthly net trade and bills receivable balances for the year/period, divided by the total revenue for the year/period and multiplied by 365/182.

During the Track Record Period, credit terms extended to our customers varied from 30 to 90 days. Our trade receivables turnover days for the year ended 31 December 2007 was in general in line with the credit terms allowed to our customers. The increase in our average trade receivables turnover days for the year ended 31 December 2008 as compared to that of the year ended 31 December 2007 was mainly due to our change in business arrangement in 2008 as mentioned above, which resulted in our customers requiring additional time to ascertain the quantity and amount of sales of raw materials and components before they would settle their purchases from us. Our Directors also believe that it was partially caused by the global economic crisis that began in late 2008 which resulted in credit pressure on businesses, including our customers. For the six months ended 30 June 2009, we resumed to be a turnkey solution provider that have improved our trade receivables turnover days, the effect of which was however, offset by the continuing weak economy and also our extension of credit term allowed for one of our major customers from 75 to 90 days.

TRADE PAYABLES ANALYSIS

Our trade payables as at 31 December 2007, 2008 and 30 June 2009 were HK$171.2 million, HK$153.0 million and HK$84.3 million, respectively, accounting for approximately 52.0%, 55.2% and 44.2%, respectively, of our total current liabilities. Our trade payables balances arose from the purchases of raw materials and components from our suppliers.

The following table sets out the aging analysis of our trade payables at the end of respective reporting periods:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Age			
0 to 30 days	30,458	17,607	70,681
31 to 60 days	77,542	129,497	3,852
Over 60 days	63,181	5,912	9,764
Total trade payables	171,181	153,016	84,297

The trade payables are non-interest-bearing and are normally settled within 30 to 90 days. Up to the Latest Practicable Date, over 98.0% of our trade payables as at 30 June 2009 were subsequently settled.

The following table sets out our average trade payables turnover days for the Track Record Period:

	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
Average trade payables turnover days (1)	55.5	104.5	123.5

Note:

(1) Average trade payables turnover days for the two years ended 31 December 2008 and the six months ended 30 June 2009 were computed by the average of the monthly trade payable balances for the year/period, divided by the cost of sales for the year/period and multiplied by 365/182.

Credit periods granted by our suppliers are in general in the range of 30 to 75 days. Our trade payables turnover days for the year ended 31 December 2007 was generally in line with the credit periods granted by our suppliers. The increase in average trade payables turnover days in 2008 was primarily the result of the increase in our average trade receivables turnover days. As a result of the longer payment periods from our customers in 2008, we sought and obtained longer credit periods from our suppliers. The trade payables turnover days increased from approximately 104.5 days for the year ended 31 December 2008 to approximately 123.5 days for the six months ended 30 June 2009, which is mainly due to the result of the increase in the average trade receivables turnover days. As a result of the longer payment periods from our customers, we sought and obtained longer credit periods from our suppliers.

OTHER PAYABLES AND ACCRUALS ANALYSIS

The following table sets out our Group's other payables and accruals at the end of respective reporting periods:

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Other payables			
Salary payable	1,102	1,304	1,184
Bonus payable	3,831	1,740	–
Royalty expense payable	2,202	2,233	1,574
Payable for tooling	1,579	1,175	922
Others	2,505	1,684	1,491
	11,219	8,136	5,171
Accruals			
Audit fee	1,820	2,010	1,649
Accrued license fees	1,625	–	–
Annual leave	590	284	284
Accrued insurance	384	428	148
Accrued rental	236	254	51
Withholding tax	–	–	757
Others	2,644	1,179	2,205
	7,299	4,155	5,094
Accrued interest on loans from related parties and a shareholder	3,384	3,384	3,384
Deferred revenue	–	2,060	1,011
Total other payables and accruals	21,902	17,735	14,660

The overall decrease in other payables and accruals as at 30 June 2009 as compared to that as at 31 December 2008 and 31 December 2007 was mainly due to (i) the overall decrease in payable for staff bonus as a result of our cost cutting measure; and (ii) the decrease in accrued license fees as all license fees had been settled as at 31 December 2008 and 30 June 2009.

OTHER KEY FINANCIAL RATIOS

	As at/for the year ended 31 December		As at/for the six months ended 30 June
	2007	2008	2009
Current ratio (1)	0.83	0.83	0.77
Quick ratio (2)	0.82	0.80	0.73
Return on assets (3)	10.8%	3.4%	2.3%

Notes:

(1) Current ratio equals to total current assets divided by total current liabilities.

(2) Quick ratio equals to total current assets less inventories, divided by total current liabilities.

(3) Return on assets equals to net profit divided by total assets and multiplied by 100%.

Our current ratio as at 31 December 2008 was approximately 0.83 which remained fairly stable as compared to approximately 0.83 as at 31 December 2007. Our current ratio declined from approximately 0.83 as at 31 December 2008 to approximately 0.77 as at 30 June 2009. This is mainly attributable to the decrease in both the current assets and current liabilities in comparable amount, due to seasonal factor as our Group's business is generally slower in the first half and therefore the lower trade receivables and payables.

Our quick ratio as at 31 December 2008 was approximately 0.80 which remained fairly stable as compared to approximately 0.82 as at 31 December 2007. Our quick ratio declined from approximately 0.80 as at 31 December 2008 to approximately 0.73 as at 30 June 2009. This is mainly due to, excluding the effect of change in inventories, the decrease in both other current assets and current liabilities in comparable amount, as a result of the seasonal factor of our Group's business.

Our return on total assets decreased from approximately 10.8% for the year ended 31 December 2007 to approximately 3.4% for the year ended 31 December 2008. This is mainly due to the combined effects of the decrease of net profit from approximately HK$30.8 million for 2007 to HK$8.2 million for 2008 and the decrease of total assets from approximately HK$285.0 million as at 31 December 2007 to HK$241.9 million as at 31 December 2008, which is mainly attributable to the decrease in trade and bills receivables, as a result of global economic downturn in 2008 which negatively affected our Group's profit margin.

Our net profit for the period turned around from a loss of HK$2.0 million for the six months ended 30 June 2008 to a profit of HK$3.7 million for the six months ended 30 June 2009 and recorded return on total assets of 2.3%, which was mainly attributable to the combined effects of decrease in revenue, cost of sales and operating expenses (especially research and development costs and legal and professional fees) in the first six months of 2009.

We recorded net liabilities as at 31 December 2007, 31 December 2008 and 30 June 2009, therefore, the return on equity analysis is not applicable.

WORKING CAPITAL

Our Directors believe that after taking into account the financial resources available to us, including our available credit facilities and internally generated funds, and the estimated [●] of the [●], we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this document.

CONTINGENT LIABILITIES

As at 31 October 2009, we did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any members of our Group.

The Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since 31 October 2009.

DISCLAIMER

Save as aforesaid and apart from intra-group liabilities, we did not have any other outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at 31 October 2009.

Our Directors confirm that, up to the Latest Practicable Date, there have been no material changes in our indebtedness, capital commitments and contingent liabilities of our Group from 31 October 2009.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 September 2009. As at 30 June 2009, there was no reserves available for distribution to our equity holders.

DIVIDEND AND DIVIDEND POLICY

We did not declare nor pay any dividends to shareholders of our Company or any of our subsidiaries during the Track Record Period.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

PROPERTY INTEREST AND PROPERTY VALUATION

Greater China Appraisal Limited, an independent property valuer, has valued our property interest as at 30 September 2009 and is of the opinion that the value of our property interests is of no commercial value. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV to this document.

DISCLOSURE REQUIRED UNDER CHAPTER 17 THE GEM LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 17.15 to 17.21 in Chapter 17 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since 30 June 2009, being the date on which the latest financial information of our Group was reported in the Accountants' Report set out in Appendix I to this document.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Liquidity risk

Our Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and standby credit facilities. Our Group aims to maintain sufficient cash and bank balances and credit lines to meet its liquidity requirements.

Credit risk

Our Group's policy requires that advanced payments have to be received for new customers. In addition, receivable balances are monitored by us on an ongoing basis and the management believes that our Group's exposure to bad debts is not significant.

Interest rate risk

Our Group's exposure to the risk of changes in market interest rates relates primarily to loans from related parties and a shareholder, and interest-bearing bank borrowings with floating interest rates. We mitigate this risk by monitoring closely the movements in interest rates and reviewing its available credit facilities and their utilisation regularly.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in the Accountants' Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.