Perception Digital Holdings Limited

(a company incorporated in the Cayman Islands with limited liability)

Share Offer

Quam 華富嘉洛 CAPITAL 企業融資

Quam Capital Limited

Sponsor

Quam 華富嘉洛 Securities & Futures 證券期貨

Quam Securities Company Limited

Bookrunner and

Lead Manager

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

PERCEPTION DIGITAL HOLDINGS LIMITED
幻音數碼控股有限公司

(a company incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares	:	**150,000,000 Shares (subject to the Over-allotment Option)**
Number of Placing Shares	:	**135,000,000 Shares (subject to re-allocation and the Over-allotment Option)**
Number of Public Offer Shares	:	**15,000,000 Shares (subject to re-allocation)**
Offer Price	:	**Not more than HK$0.73 and expected to be not less than HK$0.67 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**HK$0.10 per Share**
Stock code	:	**08248**

Sponsor

Quam 華富嘉洛 CAPITAL 企業融資

Bookrunner and Lead Manager

Quam 華富嘉洛 Securities & Futures 證券期貨

Co-Lead Managers

TSC Capital Limited

OSK Securities Hong Kong Limited

Co-Managers

Newpont Securities Limited

Po Kay Securities & Shares Co., Ltd.

YF Securities Company Limited

Goldin Equities Limited

Convoy Investment Services Limited

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Lead Manager (for itself and on behalf of the Underwriters) and us on or before Thursday, 10 December 2009 or such later date as may be agreed by the Lead Manager and us. The Offer Price will not be more than HK$0.73 per Offer Share and is currently expected to be not less than HK$0.67 per Offer Share unless otherwise announced. Investors applying for the Public Offer Shares must pay, on application, the indicative maximum offer price of HK$0.73 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund.

The Lead Manager (for itself and on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on our website at www.perceptiondigital.com and the GEM website at www.hkgem.com, not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price range and/or the number of Offer Shares is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between the Lead Manager (for itself and on behalf of the Underwriters) and us on or before Thursday, 10 December 2009 or such later date as may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Offer Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to be given by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

4 December 2009

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Application lists open [2]	11:45 a.m. on Wednesday, 9 December 2009
Latest time for lodging **white** and **yellow** Application Forms	12:00 noon on Wednesday, 9 December 2009
Application lists of the Public Offer close	12:00 noon on Wednesday, 9 December 2009
Expected Price Determination Date [3]	Thursday, 10 December 2009
Announcement of the Offer Price, the level of indication of interest in the Placing, level of applications in the Public Offer and basis of allotment of the Public Offer Shares under the Public Offer to be published on our Company's website at www.perceptiondigital.com and the GEM website at www.hkexnews.hk on or before	Tuesday, 15 December 2009
Results of applications and Hong Kong identity card/ passport/Hong Kong business registration numbers of successful applicants under the Public Offer to be available through a variety of channels as described under the paragraph headed "Publication of results" in the section headed "How to apply for the Public Offer Shares" in this prospectus including our Company's website at www.perceptiondigital.com, the GEM website at www.hkexnews.hk and the website at www.tricor.com.hk/ipo/result from on or before	Tuesday, 15 December 2009
Despatch of share certificates on or before [4] & [6]	Tuesday, 15 December 2009
Despatch of refund cheques on or before [5] & [6]	Tuesday, 15 December 2009
Dealings in the Shares on GEM to commence on	9:30 a.m. on Wednesday, 16 December 2009

Notes:

(1) All times refer to Hong Kong local time.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 9 December 2009, the application lists will not open or close on that day. Please refer to the paragraph headed "Effect of bad weather on the opening of the application lists" in the section headed "How to apply for the Public Offer Shares" in this prospectus. If the application lists do not open and close on Wednesday, 9 December 2009, the dates mentioned in this section headed "Expected timetable" may be affected.

(3) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or before Thursday, 10 December 2009. If, for any reason, the Offer Price is not agreed between the Lead Manager (for itself and on behalf of the Underwriters) and us by Thursday, 10 December 2009 or such later date as may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and us, the Share Offer (including the Public Offer) will not proceed and will lapse.

(4) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Wednesday, 16 December 2009 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the Underwriting Agreement has not been terminated in accordance with its terms. If the Share Offer does not become unconditional or the Underwriting Agreement is terminated in accordance with its terms, we will make an announcement as soon as possible.

(5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

(6) Applicants who have applied on **white** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have indicated in their Application Forms that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, between 9:00 a.m. to 1:00 p.m. on Tuesday, 15 December 2009. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporation's chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Tricor Investor Services Limited at the time of collection. Applicants who have applied on **yellow** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **yellow** Application Form applicants are the same as those for **white** Application Form applicants. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms. Further information is set out under the paragraph headed "Despatch/collection of share certificates and refund of application money" in the section headed "How to apply for the Public Offer Share" in this prospectus.

Particulars of the structure of the Share Offer, including the conditions thereto, are set out in the section headed "Structure of the Share Offer" in this prospectus.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Lead Manager, the Sponsor, any of the Underwriters, any of their respective directors, or any other person involved in the Share Offer.

Page

CONTENTS

Page

CONTENTS

Page

Appendices

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment in companies listed on GEM. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

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

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

We emphasize on research and development of information technology. Led by Dr. Lau, our Chairman and CEO, we had a research and development team of over 104 staffs in total in Hong Kong and Shenzhen, the PRC as at the Latest Practicable Date.

While we focus on developing embedded firmware and software applications used in our products, we also collaborate with IC manufacturers to modify and enhance the Embedded Operating Systems to be used in our products. By enhancing the Embedded Operating Systems, we aim at enhancing the performance of the IC supplied by the IC manufacturers. We also work with our customers on their road map for future products and technologies, aiming at assisting our customers to achieve a faster product development time.

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

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

<u>Wireless</u>
Bluetooth (AVRCP, A2DP)
WiFi-wireless network 802.11b/g/n

<u>Multimedia content</u>
YouTube video clip download
Rhapsody-ready
DRM (Napster-to-go, audible book, BBC iplayer)

<u>Audio and video</u>
Active noise cancellation
Voice prompt
DSP
Humming search

<u>Biometric</u>
Three-axis G-sensor control accelerometer to detect distinct motions
Heart rate monitoring via near-field infra-red signal

<u>Device user interface</u>
Android
OneUX UI system

<u>Broadcasting</u>
Multiple digital broadcasting standards (such as OneSEG)

<u>Web2.0</u>
Facebook connectivity

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

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

OUR STRATEGIES AND BUSINESS OBJECTIVES

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

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

SUMMARY FINANCIAL INFORMATION

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

Combined income statements

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
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
	HK cents	*HK cents*	*HK cents*	*HK cents*
Earnings/(loss) per share attributable to equity holders of the Company				
– Basic	5.1	1.4	(0.3)	0.6
– Diluted	N/A	N/A	N/A	N/A

Combined statements of comprehensive income

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

Selected combined statements of financial position data

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

Selected combined statements of cash flows data

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

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

Working capital

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

	As at 31 December		As at 30 June	As at 31 October
	2007	**2008**	**2009**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
				(unaudited)
Current assets	274,358,328	231,333,556	146,512,684	355,440,996
Current liabilities	329,490,476	277,280,423	190,706,924	378,080,282
Net current liabilities	(55,132,148)	(45,946,867)	(44,194,240)	(22,639,286)

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

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

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

The substantial increase in the forecast profits after tax for the year ending 31 December 2009 when compared with that for the year ended 31 December 2008 is mainly attributable to the expected decrease in the research and development costs charged to the income statement as a result of the increase in capitalization of the research and development costs and the expected decrease in other operating expenses following the implementation of certain cost control measures in the first half of 2009. In addition, JL Limited and UGH agreed to bear HK$1.6 million and HK$6.7 million of the listing cost incurred in connection with the Listing respectively. Our Company has agreed to pay such amount on behalf of JL Limited and UGH, and thereby offset against the remaining outstanding loans from JL Limited and Mr. Heung, Lap Chi Eugene (the spouse of Ms. Leung, Yee Li Lana, who is the sole shareholder of UGH) to our Group.

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK$85.5 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range of HK$0.67 to HK$0.73 per Share. We intend to use such net proceeds as follows:

– Approximately HK$12.0 million towards product and technology development which include, among others, conducting research and development projects focusing on enhancing the features of and innovating advanced technologies for the "Live-Lite" series products and open source-based multimedia Internet devices;

– Approximately HK$11.5 million towards broadening market coverage and expansion of our sales network in particular, for the "Live-Lite" series products and the PRC market;

– Approximately HK$9.0 million towards enhancing our research and development capability through expansion of our research and development team;

– Approximately HK$7.0 million towards possible merger and acquisition opportunities, where no target had been identified and no definitive agreement had been entered into as at the Latest Practicable Date;

– Approximately HK$38.0 million towards repaying the bank borrowings (which are currently applied as our working capital and repayment of shareholders' loans) with annual interest rates ranging from 5.0% to 6.5% and maturing in 2010; and

– Approximately HK$8.0 million towards working capital and other general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Share Offer (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK$4.4 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, the net proceeds from the Share Offer will increase by approximately HK$15.3 million, assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range. We intend to apply such net proceeds to working capital and other general corporate purposes. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Share Offer (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK$0.7 million, respectively. We intend to increase or decrease the allocation of the net proceeds to working capital and other general corporate purposes.

To the extent that the net proceeds of the Share Offer are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

OFFER STATISTICS [1]

	Based on an Offer Price of HK$0.67	Based on an Offer Price of HK$0.73
Market capitalization of the Shares [2]	HK$402,000,000	HK$438,000,000
Prospective price/earnings multiple		
Pro forma fully diluted [3]	16.1 times	17.5 times
Unaudited pro forma adjusted combined net tangible assets per Share [4]	HK7.1cents	HK8.6cents

Notes:

(1) All statistics in this table assume that the Over-allotment Option is not exercised.

(2) The calculation of market capitalization is based on 600,000,000 Shares expected to be in issue immediately upon completion of the Share Offer and the Capitalization Issue.

(3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 31 December 2009 at the respective Offer Prices of HK$0.67 and HK$0.73 and on the assumption that the Capitalization Issue and the Share Offer have taken place since 1 January 2009 with a total number of 600,000,000 Share in issue since 1 January 2009.

(4) The unaudited pro forma adjusted combined net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed "Unaudited pro forma adjusted combined net tangible assets" in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of 600,000,000 Shares in issue at the respective Offer Prices of HK$0.67 and HK$0.73 per Share immediately following completion of the Share Offer and the Capitalization Issue.

RISK FACTORS

Risks relating to our business

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

- We rely on the manufacturing support provided by subcontractors. Any failure in or interruption of the business of the subcontractors will adversely affect our results of operations

- We are highly dependent on a limited number of our key customers for a significant portion of our revenues, and we anticipate such dependence to continue in the near future

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

- Our operating results may fluctuate from period to period depending on the fulfillment of the capitalization criteria in respect of direct development expenditures incurred for our development projects

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

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

- We will need to invest significant financial and managerial resources in research and development to maintain our market position, keep pace with technological advances and compete effectively in the consumer electronics industry

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

- We may be adversely affected by product liability exposure claims

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

- We may be involved in litigation disputes over intellectual property

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

- Our Group is exposed to concentration of credit risk

- We may be exposed to inventory obsolescence risk

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

- Fluctuations in exchange rates could adversely affect our business

- We are licensed by some of our suppliers to install their DRM technologies on our products and our failure to safeguard such licensed DRM technologies will subject our Group to litigation and liabilities for breach of the relevant licenses

- Repayment of bank borrowings with the net proceeds from the Share Offer

Risks relating to our industry

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

- We operate in a highly competitive industry

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

- We operate in a rapidly-changing technology environment

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

Risks relating to the PRC

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

- The new tax laws subject us to a withholding tax at a rate of 10%

- Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government may adversely affect our business, growth strategies, financial condition and results of operations

- The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those offered in other jurisdictions

Risks relating to the global economic downturn

Risks relating to the Share Offer

- There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile

- Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

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

- Impact of granting options under the Share Option Scheme

Risks relating to statement made in this prospectus

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

- You should not rely on any information contained in press articles or other media regarding our Group and the Share Offer

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"Application Form(s)"	**white** application form(s), **yellow** application form(s), or where the context so requires, any one or both of them, relating to the Share Offer
"Articles of Association" or "Articles"	the articles of association of our Company adopted on 27 November 2009 and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Board" or "Board of Directors"	the board of Directors of our Company as at the date of this prospectus
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalization Issue"	the issue of 449,868,023 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to under the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in the section headed "Further information about our Company" in Appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CEO"	the chief executive officer of our Group
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this prospectus, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the GEM Listing Rules and unless the context requires otherwise, refers to Excel Direct, Masteray, Rochdale, Swanland, Dr. Lau, Ms. Loh (the spouse of Dr. Lau), Prof. Cheng, Ms. Le Cheng (the spouse of Prof. Cheng), Prof. Tsui and Ms. Cheung, Wai Hing, Barbara (the spouse of Prof. Tsui), who, together, will control the exercise of 30% or more of the voting rights in the general meeting of our Company immediately after the Share Offer and the Capitalization Issue (assuming that the Over-allotment Option is not exercised)
"Corporate Reorganization"	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out under the paragraph headed "Corporate reorganization" in the section headed "History and corporate structure" in this prospectus
"Director(s)"	the director(s) of our Company as at the date of this prospectus
"Dr. Lau"	Doctor Lau, Jack, the Chairman, the CEO, an executive Director and one of the founders of our Group
"EPS"	earnings per Share

"EU" or "European Union"	a supranational and intergovernmental union of twenty-seven states and a political body established in 1993 by the Treaty on European Union and is the de facto successor to the six member European Economic Community founded in 1957
"Excel Direct"	Excel Direct Technology Limited, a company incorporated in BVI, owned as to 50% by Prof. Tsui and as to 50% by Ms. Cheung, Wai Hing, Barbara, the spouse of Prof. Tsui
"Executive Officers"	the executive officers of our Company as at the date of this prospectus
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM (as amended from time to time)
"GEM website"	the Internet website at www.hkgem.com operated by the Stock Exchange for the purpose of GEM
"Group", "our Group", the "PD Group, "we" or "us"	our Company and its subsidiaries following the completion of the Corporate Reorganization or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors, and a Group Company shall refer to any one of them
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

"HKTDC"	The Hong Kong Trade Development Council, an Independent Third Party
"HKUST"	the Hong Kong University of Science and Technology
"HKUST R&D"	Hong Kong University of Science and Technology R and D Corporation Limited, a company incorporated in Hong Kong and is wholly owned by HKUST, where our independent non-executive Director, Professor Chu, Ching Wu, Paul, served on its board of directors
"Hong Kong", "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IBM"	International Business Machines Corporation
"IFRS(s)"	International Financial Reporting Standard(s)
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) the Directors, chief executive, substantial shareholders (within the meaning of the GEM Listing Rules) and Management Shareholders of our Company, our subsidiaries or any of their respective associates, and not otherwise a connected person of our Company
"IWC"	IWC Digital Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of our Company
"JL Limited"	Jack Lau Limited, a company incorporated in Hong Kong and wholly owned by Ms. Loh
"Latest Practicable Date"	30 November 2009, being the latest practical date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Lead Manager"	Quam Securities Company Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO
"Listing"	the listing of the Shares on GEM

"Listing Date"	the date, expected to be on or about Wednesday, 16 December 2009, on which dealings in the Shares on GEM first commence
"Listing Division"	the Listing Division of the Stock Exchange for GEM
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange prior to the establishment of GEM, which excludes options market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt, excludes GEM
"Management Shareholders"	the management shareholder (having the same meaning ascribed thereto in the GEM Listing Rules) and in relation to our Company means Excel Direct, Masteray, Rochdale, Swanland, Glory Wood Limited, Dr. Lau, Ms. Loh, Prof. Cheng, Ms. Le Cheng, Prof. Tsui, Ms. Cheung, Wai Hing, Barbara and Chui, Shing Yip Jeff, more details of which are set out in the section headed "Substantial, significant and Management Shareholders" in this prospectus
"Masteray"	Masteray Limited, a company incorporated in BVI and wholly owned by Ms. Loh
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company
"Ms. Loh"	Loh, Jiah Yee, Katherine, a Controlling Shareholder and the spouse of Dr. Lau
"NAV"	net asset value
"Notable Success"	Notable Success Investments Limited, a company incorporated in BVI, wholly owned by Successful Link Limited, which is in turn wholly owned by Mr. Paulo Lam, a former director of PD (BVI), PD (HK) and PD Trading. Save for its interest in our Company and Mr. Paulo Lam's prior directorship at PD (BVI), PD (HK) and PD Trading, Notable Success is not connected with our Company, our connected persons or their respective associates

"Offer Price"	the final offer price per Offer Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK$0.73 and is expected to be not less than HK$0.67, such price to be determined on or before 10 December 2009, as may be agreed between our Company and the Lead Manager (for itself and on behalf of the Underwriters)
"Offer Share(s)"	the Placing Share(s) and the Public Offer Share(s), and where relevant, together with any additional Share(s) issued pursuant to the exercise of the Over-allotment Option
"our Company" or "Company"	Perception Digital Holdings Limited (幻音數碼控股有限公司), a company incorporated with limited liability under the laws of the Cayman Islands on 11 September 2009 (please refer to the section headed "History and corporate structure" in this prospectus for a detailed description of the shareholding structure of our Company)
"Over-allotment Option"	the option to be granted by our Company to the Placing Underwriters exercisable by the Lead Manager (for itself and on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to 22,500,000 additional new Shares, representing 15% of the Shares initially available under the Share Offer at the Offer Price, to, among other things, cover over-allocations of the Placing (if any) as further described in the section headed "Structure of the Share Offer" in this prospectus
"PD (BVI)"	Perception Digital Technology (BVI) Ltd., a company incorporated in the BVI and a direct wholly owned subsidiary of our Company
"PD (HK)"	Perception Digital Limited, a company incorporated in Hong Kong and an indirect wholly owned subsidiary of our Company
"PD Shenzhen"	幻音科技(深圳)有限公司 (Perception Digital Technology (Shenzhen) Limited*), a wholly foreign-owned enterprise established in the PRC and an indirect wholly owned subsidiary of our Company

"PD Trading"	PD Trading (Hong Kong) Limited, a company incorporated in Hong Kong, owned as to 50% by PD (HK) and as to 50% by PD (BVI), and an indirect wholly owned subsidiary of our Company
"Placing"	the conditional placing by the Placing Underwriters of the Placing Shares at the Offer Price with institutional, professional and private investors, details of which are described in the section headed "Structure of the Share Offer" in this prospectus
"Placing Shares"	the 135,000,000 new Shares being offered by our Company for subscription under the Placing (subject to the Over-allotment Option and re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus), together, where relevant, with any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option
"Placing Underwriters"	the underwriters in respect of the Placing named in the paragraph headed "Placing Underwriters" in the section headed "Underwriting" in this prospectus
"Price Determination Date"	the date on which the Offer Price is determined, which is expected to be on or before 10 December 2009
"Prof. Cheng"	Professor Cheng, Roger Shu Kwan, a non-executive Director and one of the founders of our Group
"Prof. Tsui"	Professor Tsui, Chi Ying, an executive Director and one of the founders of our Group
"Public Offer"	the offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms
"Public Offer Shares"	the 15,000,000 new Shares initially being offered by our Company for subscription at the Offer Price under the Public Offer (subject to re-allocation as described in the section headed "Structure of the Share Offer" in this prospectus)
"Public Offer Underwriters"	the underwriters in respect of the Public Offer named under the paragraph headed "Public Offer Underwriters" in the section headed "Underwriting" in this prospectus

"Rochdale"	Rochdale Consultancy Limited, a company incorporated in BVI, owned as to 50% by Prof. Cheng and as to 50% by Ms. Le Cheng, the spouse of Prof. Cheng
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) with a nominal value of HK$0.10 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on GEM
"Share Lender"	Swanland
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 27 November 2009, the principal terms of which are summarized under the section headed "Share Option Scheme" in Appendix VI to this prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Sponsor"	Quam Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
"Stock Borrowing Agreement"	the stock borrowing agreement dated 3 December 2009 entered into between the Lead Manager and the Share Lender
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Swanland"	Swanland Management Limited, a company incorporated in BVI, owned as to 51% by Masteray, as to 24.5% by Excel Direct and as to 24.5% by Rochdale
"Track Record Period"	the two years ended 31 December 2008 and the six months ended 30 June 2009

"UGH"	UGH Investment Holding Limited, a company incorporated in BVI, wholly owned by Ms. Leung, Yee Li Lana, the spouse of Mr. Heung, Lap Chi Eugene, who provided certain loans and guarantee to our Group. Save for its interest in our Company and Mr. Heung, Lap Chi Eugene's provision of loans and guarantee to our Group, UGH is not connected with our Company, our connected persons or their respective associates
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreement"	the conditional underwriting agreement relating to the Share Offer dated 3 December 2009 and entered into between, among others, our Company, the Sponsor, the Lead Manager and the Underwriters
"United States" or "US"	the United States of America
"HK$" or "HK dollar(s)" and "cents"	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"sq. ft." and "sq. m."	square feet and square meters, respectively
"US dollar(s)" or "US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, unless otherwise stated, certain amounts denominated in HK dollars have been translated into US dollars at an exchange rate of HK$7.75 = US$1.00, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in HK dollars were or could have been or could be converted into US dollars at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names in Chinese or another language which are marked with "" and the Chinese translation of names in English which are marked with "*" is for identification purpose only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"AC-3"	:	Audio Codec 3
"Android"	:	a mobile operating system, which was initially developed by Google Inc. and later the Open Handset Alliance
"ASIC"	:	application-specific integrated circuits
"ASSP"	:	application-specific standardized products
"Bluetooth"	:	a short-range radio technology for Internet and mobile devices, aimed at simplifying communications among them
"CMMB"	:	China Multimedia Mobile Broadcasting, a mobile television and multimedia standard developed and specified in China by the State Administration of Radio, Film, and Television of the PRC
"CPU"	:	central processing unit
"DAB"	:	digital audio broadcasting, a digital radio technology for broadcasting radio stations, used in several countries, particularly in Europe
"DRM"	:	digital rights management, a collection of systems used to protect the copyrights of electronic media
"DSP"	:	dedicated digital signal processor, a circuitry which can manipulate and process digital signals for a wide range of purposes including filtering, conditioning, enhancing, etc.
"DVB"	:	digital video broadcasting
"DVBT"	:	digital video broadcasting – terrestrial, the DVB European-based consortium standard for the broadcast transmission of digital terrestrial television
"DVR"	:	digital video recording

"Embedded Operating Systems"	:	a compact and efficient operating system designed for embedded computer systems that are characterized by having only a few dedicated functions, typically with real-time constraint, and is housed or embedded in a complete device such as set-top boxes, portable media players, and smartphones
"EMS"	:	electronics manufacturing services
"EMEA"	:	Europe, the Middle East and Africa
"firmware"	:	a fixed microprogram stored in ROM, designed to implement a few dedicated functions, usually used to control and interface with other software or hardware components or devices
"ISO"	:	International Organization for Standardization and the standards maintained by it
"GPS"	:	Global Positioning System which is a US space-based global navigation satellite system
"GUI"	:	graphical user interface
"HDTV" or "HD"	:	high-definition television, which is a digital television broadcasting system with higher resolution than traditional television systems
"IC"	:	integrated circuit
"IEEE"	:	Institute of Electrical and Electronic Engineers
"Java"	:	a multi-platform programming language developed by Sun Microsystems, Inc.
"JPEG"	:	a commonly used compression standard for photographic images
"LCD"	:	a liquid crystal display, which is a thin, flat panel used for electronically displaying information such as text, images, and moving pictures
"MCU"	:	a microcontroller unit
"MID"	:	a mobile Internet device
"MIMO"	:	Multiple Input, Multiple Output is a wireless technology
"MMC"	:	a multimedia card

"MPU"	:	an application-specific microprocessor unit
"MPEG-2"	:	a standard of coding of moving pictures and associated audio information
"MP3"	:	a patented digital audio encoding format, a standard most commonly used to store digital music and audio files
"MP4"	:	a multimedia container format standard most commonly used to store digital audio and digital video streams
"Napster-to-go"	:	a digital music portable subscription service provided by Napster, Inc.
"NAND flash"	:	a type of flash memory, flash memory is a non-volatile memory that can be electrically erased and reused
"netbook computer"	:	a portable computer designed for wireless communication and access to the Internet
"OBM"	:	an original brand manufacturer, a business model involving an entire product made by another manufacturer or including a component thereof from that manufacturer and selling product as own branded product
"ODM"	:	an original design manufacturer, a business model involving designing as well as building products or components for sale to a client that then retails under the brand name of the client
"OEM"	:	an original equipment manufacturer, a business model involving the development and manufacture of products that are then incorporated into end-products for rebranding or repackaging
"OFDM"	:	Orthogonal Frequency Division Multiplexing
"Open Handset Alliance"	:	a business alliance of 50 companies including Google Inc., HTC Corporation, Intel, Motorola, Inc., Qualcomm Inc., Texas Instruments Incorporated, Samsung Electronics Company, LG Group, T-Mobile, Nvidia Corporation and Wind River Systems Inc. to develop open standards for mobile devices
"OLED"	:	organic high-emitting diode

"open source"	:	a method and philosophy for software licensing and distribution designed to encourage use and improvement of software written by volunteers by ensuring that anyone can copy the source code and modify it freely
"PC"	:	a personal computer
"PCBA"	:	printed circuit board and assembly
"PCM"	:	pulse-code modulation
"PDA"	:	a personal digital assistant, which is a handheld computer
"PLD"	:	a programmable logic device
"PMP"	:	a portable media player
"Rhapsody"	:	a membership-based online music service run by RealNetworks, Inc.
"ROHS"	:	restriction of hazardous substances, a directive issued by the EU in relation to the use of certain hazardous substances in electrical and electronic equipment
"ROM"	:	a read-only memory
"RSS"	:	really simple syndication
"SAP"	:	a business software related to supply chain management
"SD"	:	secure digital storage card
"SDHC"	:	secure digital high capacity
"SMV"	:	SigmaTel motion video, a video format used by SigmaTel, Inc. or other players based on the ICs of SigmaTel, Inc.
"SDK"	:	software development kit
"smart phone"	:	a category of mobile handset which runs a complete operating system software that provides a standardized interface and platform for application developers. It may include functions for short message system ("SMS"), email and web browser

"source codes"	:	program instructions developed by software engineers and must be translated by a compiler, interpreter, or assembler into object code before execution
"SRS"	:	sound retrieval system, a technology developed by SRS Labs, Inc.
"STB"	:	set-top box, which is a device that connects to a television and an external source of signal, turning the signal into content which is then displayed on the television screen
"TFT"	:	thin film transistor liquid crystal display
"turnkey solutions"	:	a set of services which together cover all the phases involved in the production of products
"USB"	:	universal serial bus
"WiFi"	:	a wireless local area network certified by the Wi-Fi Alliance for wireless local area network products based on the IEEE 802.11 standards
"Web 2.0"	:	the second generation of the World Wide Web in which content is user-generated and dynamic, and software is offered that mimics desktop programs
"WLAN"	:	wireless local area network
"WMA"	:	Windows Media Audio, a digital audio file format created by Microsoft Corporation
"WMV"	:	Windows Media Video, a digital video format developed by Microsoft Corporation
"3G"	:	International Mobile Telecommunication 2000, which is a family of standards for mobile telecommunications defined by the International Telecommunication Union
"3.5G"	:	standards that are enhanced versions of 3G, including the High-Speed Packet Access (HSPA) standard

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general; and
- future development in our industry.

The words "anticipate", "believe", "could", "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company.

RISKS RELATING TO OUR BUSINESS

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

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

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

We rely on the manufacturing support provided by subcontractors. Any failure in or interruption of the business of the subcontractors will adversely affect our results of operations

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

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

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

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

We are highly dependent on a limited number of our key customers for a significant portion of our revenues, and we anticipate such dependence to continue in the near future

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

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

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

In addition, due to such seasonality factor, historically our revenue during the 1st quarter in the Track Record Period is relatively low. We recorded revenue of approximately HK$52.5 million and 76.6 million for the first quarters ended 31 March 2007 and 2008, representing approximately 8.5% and 13.8% of our revenue for the years ended 31 December 2007 and 2008 respectively. We have experienced losses for the first quarter of a year during the Track Record Period and we may experience losses in the first quarter of any given year in the future if our revenue is not sufficient to cover our fixed cost in such period.

Our operating results may fluctuate from period to period depending on the fulfillment of the capitalization criteria in respect of direct development expenditures incurred for our development projects

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

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

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

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

- timing of new technology development and the qualification of our technology by our customers;
- our ability to obtain financing in a timely manner; and
- local conditions and events that may affect our production volumes, such as labor conditions, political instability and local holidays.

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

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

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

We will need to invest significant financial and managerial resources in research and development to maintain our market position, keep pace with technological advances and compete effectively in the consumer electronics industry

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

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

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

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

We may be adversely affected by product liability exposure claims

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

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

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

Our success depends in part on the proprietary technology contained in our products. We currently rely on a combination of patents, copyrights, trade secret laws and trademarks, as well as contractual provisions to establish and protect our intellectual property rights in our products. As at the Latest Practicable Date, we had filed 41 patents in the US, the PRC and EU for the designs and technologies we have developed, out of which 16 had been successfully granted to us. Our filed patents cover designs such as digital multimedia jukebox, multimedia devices with enhanced functionality, various types of MP3 players and MP3 mini-HiFi system, digital photo frame, exercise device, earpiece sensor and method of determining body parameters and distance travelled during exercise, well-being and fitness MP3 players, apparatus and method of controlling media player with pedometer apparatus and method of adjusting the accuracy of three-axis accelerometer. We cannot be certain that the steps we have taken or will take to protect our intellectual property will adequately protect our proprietary rights, that others will not independently develop or otherwise acquire equivalent or superior technology or that we can maintain such technology as trade secrets. In addition, the laws of some of the countries in which our products are, or may be, developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as the laws of Hong Kong or the United States, or at all. Our failure to protect our intellectual property rights could have an adverse effect on our business, results of operations or financial condition.

We may be involved in litigation disputes over intellectual property

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

- ceasing to sell products that use the challenged intellectual property;

- obtaining from the owner of the infringed intellectual property a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; and

- redesigning products to avoid using the infringing intellectual property.

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

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

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

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

Our Group is exposed to concentration of credit risk

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

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

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

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

We may be exposed to inventory obsolescence risk

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

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

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

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

Fluctuations in exchange rates could adversely affect our business

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

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

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

We are licensed by some of our suppliers to install their DRM technologies on our products and our failure to safeguard such licensed DRM technologies will subject our Group to litigation and liabilities for breach of the relevant licenses

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

Repayment of bank borrowings with the net proceeds from the Share Offer

As disclosed under the paragraph headed "Use of proceeds" in the section headed "Future plans and prospects" in this prospectus, the Directors intend to use about HK$38 million, representing about 44.4% of the net proceeds from the Share Offer (after deduction of related expenses and assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range of HK$0.67 to HK$0.73 per Share) to repay the principal amount and interest accrued on a portion of our Group's outstanding bank borrowings and amounts drawn down from bank facilities. As a result, only about HK$47.5 million, representing about 55.6% the net proceeds of the Share Offer (after deduction of related expenses and assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range of HK$0.67 to HK$0.73 per Share) will be available to meet the ongoing operating needs and expansion plans of our Group.

RISKS RELATING TO OUR INDUSTRY

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

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

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

We operate in a highly competitive industry

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

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

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

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

We operate in a rapidly-changing technology environment

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

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

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

RISK RELATING TO THE PRC

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

As of the Latest Practicable Date, we had 156 employees in the PRC. On 29 June 2007, the PRC government promulgated a new labor law, namely 中華人民共和國勞動合同

法 (the Labor Contract Law of the PRC*) (the "**New Labor Law**"), which became effective on 1 January 2008. The New Labor Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the New Labor Law could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected. We also could incur additional material compliance costs in connection with the New Labor Law.

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

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

Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government may adversely affect our business, growth strategies, financial condition and results of operations

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

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

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

The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those offered in other jurisdictions

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

RISKS RELATING TO THE GLOBAL ECONOMIC DOWNTURN

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

- economic difficulties in the United States, Europe and other regions may lead to an economic slowdown or recession in some or all of the markets in which we operate;

- an economic slowdown or recession, or even the risk of a potential economic slowdown or recession may cause our customers to delay, defer or cancel their purchases from us, including decisions previously made;

- under difficult economic conditions, consumers may seek to reduce discretionary spending by foregoing purchases of consumer electronic devices products;

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

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

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

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile

Prior to the Share Offer, there was no public market for our Shares. The initial Offer Price range for our Shares was the result of negotiations among our Company and the Lead Manager on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the Shares following the Share Offer. We have applied to list and deal in our Shares on GEM. However, even if approved, being listed on GEM does not guarantee that an active trading market for our Shares will develop following the Share Offer or that our Shares will always be listed and traded on GEM. We cannot assure you that an active trading market will develop or be maintained following the completion of the Share Offer, or that the market price of our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our turnover, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. In addition, shares of other comparable companies listed on GEM have experienced substantial price volatility in the past, and it is likely that from time to time, the Shares will be subject to changes in price that may not be directly related to our financial or business performance.

Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price is higher than the net tangible asset value per Share. Therefore, subscribers of the Offer Shares in the Share Offer will experience an immediate dilution in the pro forma net tangible asset value of HK 7.1 cents per Share and HK 8.6 cents per Share based on the Offer Price of HK$0.67 per Share and HK$0.73 per Share, respectively.

We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

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

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

Impact of granting options under the Share Option Scheme

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

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

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

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

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

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

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

You should not rely on any information contained in press articles or other media regarding our Group and the Share Offer

Prior to the publication of this prospectus, there has been certain press and media coverage (including but not limited to Hong Kong Economic Journal, Ming Pao Daily News and Sing Tao Daily dated 30 November 2009 and 2 December 2009 respectively and Hong Kong Economic Journal dated 1 December 2009) regarding our Group and the Share Offer which included certain financial information, profit forecasts and other information about our Group that does not appear in this prospectus. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the GEM Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;

2. there are no other facts the omission of which would make any statement in this prospectus misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. So far as the Share Offer is concerned, no person is authorized to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors (where applicable) or any other parties involved in the Share Offer.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises the Placing and the Public Offer and are subject, in each case, to re-allocation and the Placing is also subject to the Over-allotment Option, which are described in the section headed "Structure of the Share Offer" in this prospectus.

The Listing is sponsored by the Sponsor and the Share Offer is lead managed by the Lead Manager. Subject to the terms of the Underwriting Agreement (including the determination of the final Offer Price by agreement between our Company and the Lead Manager (for itself and on behalf of the Underwriters) on or before Thursday, 10 December 2009, being the expected Price Determination Date or such later time as may be agreed by our Company and the Lead Manager (for itself and on behalf of all the Underwriters)), the Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are fully underwritten by the Placing Underwriters. For particulars of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement among the Lead Manager (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or before 10 December 2009. If, for whatever reason, our Company and the Lead Manager (for itself and on behalf of the Underwriters) are not able to agree on the Offer Price, the Share Offer will not proceed and will lapse.

SELLING RESTRICTIONS

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

Each person acquiring the Offer Shares will be required to confirm and is deemed by his acquisition of the Offer Shares to have confirmed that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants for Offer Shares should consult their financial advisors and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Share Offer and as otherwise described in this prospectus on GEM (including any Shares to be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme).

No part of our Share or loan capital of our Company is listed, traded or dealt in on any stock exchange. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, our securities on any other stock exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of our Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by our branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Our Company's principal register of members will be maintained by our principal share registrar and transfer office, Butterfield Fulcrum Group (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands.

Dealings in our Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in HK dollars in respect of our Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on GEM and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on GEM or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in our Shares. It is emphasized that none of our Company, the Lead Manager, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisors or any other person involved in the Share Offer accepts responsibility for any tax effects or liabilities of holders of our Shares resulting from the subscription, purchase, holding or disposal of our Shares.

OVER-ALLOTMENT AND STABILIZATION

In connection with the Share Offer, the Lead Manager or any person acting for it may over-allot or effect transactions with a view of supporting the market price of our Shares at a level higher than that which might otherwise prevail at any time from the Listing Date up to (and including) the 30th day after the last day for the lodging of applications under the Public Offer, which is expected to be on 8 January 2010 (the "Stabilizing Period"). However, there is no obligation on the Lead Manager or any person acting for it to do this. Such stabilization action, if taken, may be discontinued at any time and is required to be brought to an end on the expiration of the Stabilizing Period. An announcement will be made to the public within seven days after the end of the Stabilizing Period as required under the Securities and Futures (Price Stabilizing) Rules.

In connection with the Share Offer, our Company has granted to the Lead Manager (for itself and on behalf of the Placing Underwriters) the Over-allotment Option. The Over-allotment Option is exercisable in full or in part by the Lead Manager (for itself and on behalf of the Placing Underwriters) at any time during the Stabilizing Period. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to an aggregate of 22,500,000 additional Shares, representing approximately 15% of the total number of Shares initially available under the Share Offer, in connection with over-allocations in the Placing, if any.

Further details with respect to stabilization and the Over-allotment Option are set out under the paragraphs headed "The structure of the Share Offer" and "Stabilization in Hong Kong" in the section headed "Structure of the Share Offer" in this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:30 a.m. on 16 December 2009. Shares will be traded in board lots of 5,000 each.

The stock code for the Shares is 08248.

Our Company will not issue any temporary documents of title.

Dealings in the Shares on GEM will be effected by participants of GEM whose bid and offer quotations will be available on the GEM's teletext page information system. Delivery and payment for Shares dealt on GEM will be effected two trading days following the transaction date. Settlement of transactions between participants of the GEM is required to take place in CCASS on the second Business Day after any trading day. Only certificates for Shares registered on the branch share register of our Company will be valid for delivery in respect of transactions effected on GEM. If you are unsure about the procedures for dealings and settlement arrangement on GEM on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisors.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the relevant Applications Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Dr. LAU, Jack *(Chairman & CEO)*	1601, 7 May Road, Mid-Levels Hong Kong	Chinese
Prof. TSUI, Chi Ying	Flat 1B, Tower 15 Senior Staff Quarter Hong Kong University of Science and Technology Clear Water Bay The New Territories Hong Kong	British
Mr. CHUI, Shing Yip Jeff	Flat B, 1/F, Flourish Court 30-34 Conduit Road Mid-Levels, Hong Kong	Chinese
Non-executive Director		
Prof. CHENG, Roger Shu Kwan	47th Floor, Flat RD, Tower 2 The Capitol of LOHAS Park Tseung Kwan O The New Territories Hong Kong	Chinese
Independent non-executive Directors		
Prof. CHU, Ching Wu, Paul	8010 Harbour Point Drive Houston Texas 77071 USA	United States
Dr. LAM, Lee Kiu-yue, Alice Piera	3C Gough Hill Path, The Peak Hong Kong	Chinese
Mr. SHU, Wa Tung, Laurence	No.186, Santa Villa 158 Xu Ying Road Xu Jing, Qing Pu District Shanghai	Chinese
Dr. WU, Po Him, Philip	41-A Stubbs Road Block E-1, 8th Floor Villa Monte Rosa Hong Kong	Chinese

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	Quam Capital Limited Room 3208, Gloucester Tower, The Landmark 11 Pedder Street Central Hong Kong
Bookrunner and Lead Manager	Quam Securities Company Limited Room 3208, Gloucester Tower, The Landmark 11 Pedder Street Central Hong Kong
Legal advisors to our Company	*As to Hong Kong law:* Orrick, Herrington & Sutcliffe 43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong *As to PRC law:* King & Wood PRC Lawyers 40th Floor, Office Tower A, Beijing Fortune Plaza 7 Dongsanhuan Zhonglu, Chaoyang District Beijing 100020 The PRC *As to Cayman Islands law:* Conyers Dill & Pearman Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal advisors to the Sponsor and the Underwriters	*As to Hong Kong law:* K&L Gates 35th Floor Two International Finance Centre 8 Finance Street Central Hong Kong

	As to PRC law: Shu Jin Law Firm 24th Floor, Aerospace Skyscraper 4019 Shennan Road 518048, Shenzhen The PRC
Auditors and reporting accountants	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre 8 Finance Street Central Hong Kong
Property valuer	Greater China Appraisal Limited Room 2703 Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Receiving banker	Standard Chatered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
Headquarters and principal place of business in Hong Kong	Flat A, 8th Floor Shaw House Lot 220, Clear Water Bay Road Hong Kong
Place of business in the PRC	Rm 708, West Blk IER Building, South Area Shenzhen High-Tech Industrial Park Shenzhen The PRC
Company's website	www.perceptiondigital.com *(information contained in this website does not form part of this prospectus)*
Company secretary	Ms. WONG, Yuk Hing Juliana *solicitor*
Compliance officer	Dr. LAU, Jack
Authorized representatives	Dr. LAU, Jack 1601, 7 May Road, Mid-Levels Hong Kong Ms. WONG, Yuk Hing Juliana 23/F, Admiralty Centre, Tower 2 18 Harcourt Road Hong Kong
Audit committee	Mr. SHU, Wa Tung, Laurence *(Chairman)* Dr. LAM, Lee Kiu-yue, Alice Piera Dr. WU, Po Him, Philip
Nomination committee	Dr. LAM LEE, Kiu-yue, Alice Piera *(Chairman)* Dr. WU, Po Him, Philip Mr. SHU, Wa Tung, Laurence
Remuneration committee	Dr. WU, Po Him, Philip *(Chairman)* Dr. LAM, Lee Kiu-yue, Alice Piera Mr. SHU, Wa Tung, Laurence
Compliance advisor	Quam Capital Limited Room 3208, Gloucester Tower, The Landmark 11 Pedder Street Central Hong Kong

Principal bankers	Shanghai Commercial Bank Limited 405 Castle Peak Road Tsuen Wan The New Territories Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 13th Floor, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
The Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House, 68 Fort Street, P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queens Road East Wanchai, Hong Kong

Certain information and statistics set out in this section and elsewhere in this prospectus relating to the industry in which we operate is derived from various official, market and other third party sources, including information obtained from HKTDC and information provided by iSuppli Corporation ("**iSuppli**"). Based on our review of (i) the background information, credentials and qualification of iSuppli; (ii) the bases and assumptions made by iSuppli; (iii) the research methodology adopted by iSuppli; and (iv) statistics prepared by other market participants and/or research companies and based on our understanding and knowledge regarding the consumer electronics and netbook industry, we believe that the sources of these information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading or that any fact has been omitted that would render such information or statistics false or misleading. The information and statistics have not been independently verified by us, the Sponsor, the Lead Manager, the Underwriters or any of their respective affiliates or advisors or any other party involved in the Placing and Public Offer and no representation is given as to their accuracy. This information may not be consistent with information from other sources.

SOURCE OF THE INDUSTRY INFORMATION

We commissioned iSuppli, an Independent Third Party, to conduct an analysis of, and produce a report, released in August 2009, on the consumer electronics and netbook industry for inclusion in this prospectus at an aggregate fixed fee of US$10,000. iSuppli is the global leader in technology value chain research and advisory services and deliver information about the entire electronics value chain. iSuppli is headquartered in the United States and has offices in Europe and Asia.

The methodology used by iSuppli for the preparation of the report involved conducting both primary and secondary research obtained from numerous sources such as interviews, surveys, and third party sources, utilizing its long-term industry expertise and mathematical modeling to determine the market forecasts and historical performance of consumer electronics and netbook industry.

Considering the long-term research experience in the consumer electronics industry, the experience and qualification of the industry expertise, the research methodology adopted and the reputation of iSuppli, our Directors believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics.

CONSUMER ELECTRONICS INDUSTRY

Overview of consumer electronics industry

Types of consumer electronics

The increasing adoption of digital technology has given rise in the consumer market to a multitude of electronic devices, a significant number of which are designed to provide audio or video entertainment and personal use. Examples of audio devices include, but are not limited to, CD and MP3 recorders and players, personal stereos, HiFi systems, and radios. Among video devices, examples can be found in flat-panel television sets, set-top boxes, portable media players, DVD players and recorders, camcorders, digital still cameras, and video games consoles (hand-held and plug-in consoles).

In addition, a variety of consumer electronic devices falls outside of the pure audio and video entertainment space. These include mobile phones, desktop and notebook computers; fitness and home healthcare products such as digital pedometers, heart rate monitors, and consumer grade digital blood pressure monitors.

Digital consumer electronics with digital signal processing capabilities

Digital signal processing is the processing of signals by digital means. A signal consists of, amongst other information, a stream of numbers that are processed by performing numerical calculations. In the case of digital consumer electronics, this processing usually refers to the transformation of digital signals from one form to another through the performance of numerical computations. An important and common example of the use of digital signal processing is in products that require audio and video compression and decompression.

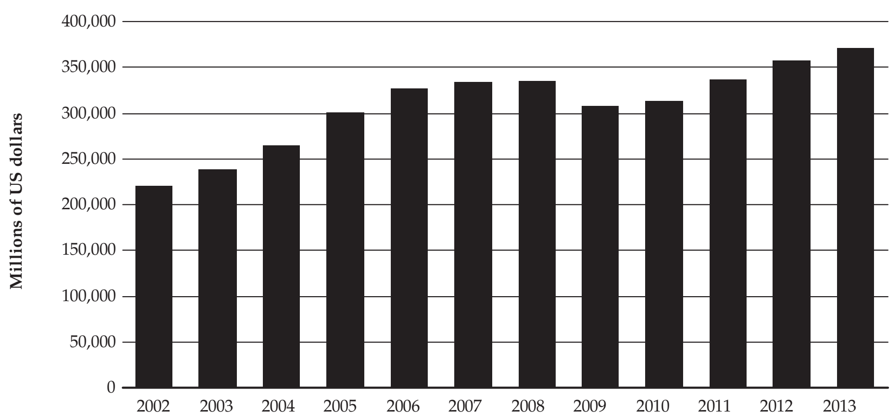
Digital signal processing can be performed on a variety of computing and logic circuits, including application-specific integrated circuits ("**ASIC**"), application-specific standardized products ("**ASSP**"), dedicated digital signal processors (also referred to as a DSP), microcontroller units ("**MCU**"), application-specific microprocessors ("**MPU**") and programmable logic devices ("**PLD**").

To enable digital signal processing, firmware is embedded into circuits. Firmware enables the device to perform its basic operations and tomanage electronic component functions. Digital electronics with embedded firmware include audio players (MP3 and WMA), digital still cameras (JPEG), camcorders (MPEG-4), DVD players, set-top boxes, A/V receivers, HDTV (MPEG-2 and AC-3), smart phones, mobile Internet devices, mini notebooks, digital storage devices such as USB, memory sticks and portable hard disk drives, and specific-functions devices such as biometric monitors, motion detection devices, global positioning system devices, mobile televisions and games consoles.

Market size

The consumer electronics market is a market worth US$335 billion in OEM revenues in 2008. Revenue is forecasted to reach approximately US$308 billion in 2009 and is projected to grow further to approximately US$371 billion by 2013 (Diagram i), representing a CAGR of 5% from 2009 to 2013. Despite the impact of the global economic downturn, the market is expected to recover, reaching US$314 billion in 2010.

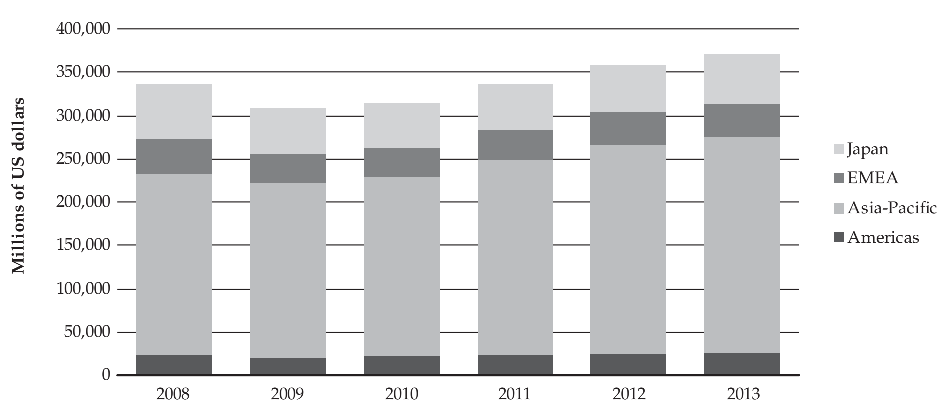
(Diagram i) Consumer electronics equipment revenue, 2002-2013



Source: iSuppli

As illustrated below (Diagram ii), the Asia-Pacific region is and will continue to be the region where the majority of consumer electronics are manufactured, especially when compared to the regions of Japan, EMEA and the Americas, respectively.

(Diagram ii) Historical and future market size (US$ million) by major countries/regions, 2008-2013



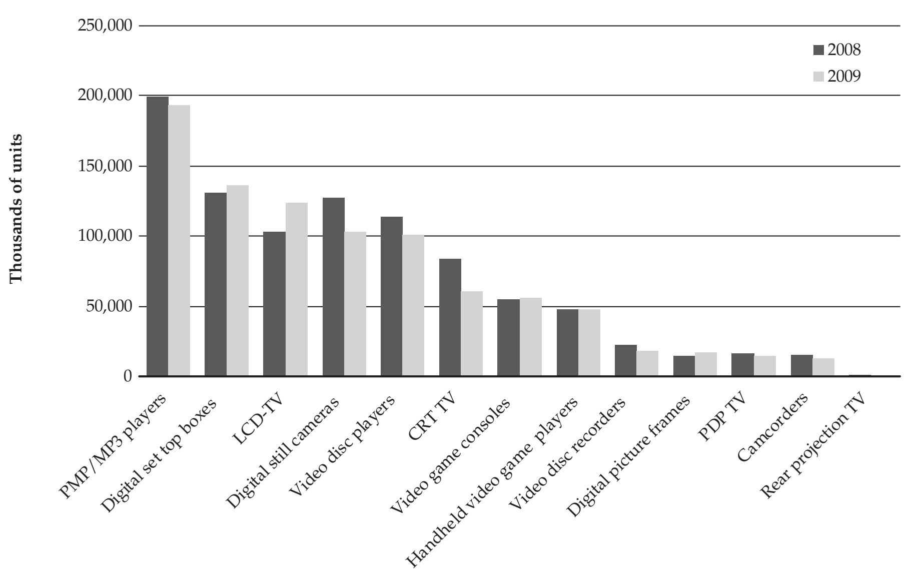
Source: iSuppli

The global economic downturn has had varying effects on different segments of the consumer electronics market. The implementation of different pricing strategies and product mix by various segments have been aimed to help improve volume and to address the reduced consumer spending budgets, resulting in expected growth in volume for some segments, such as, digital set-top boxes, LCD televisions, video game consoles, handheld video game players and digital photo frames. In particular, through its flexibility in adjusting product mix, the portable media player ("**PMP**") and MP3 segment will continue to enjoy the largest volume when compared to other segments.

The PMP/MP3 segment is a high volume segment because the devices are personal devices, and unlike a television, its use will not typically be shared with many other people. Furthermore, consumers may purchase more than one device for a number of different uses, such as, a larger device for viewing video content, a second device for use in the car and a third device for use whilst exercising.

With the variety of different devices available on the market, ranging from the high-end with wireless connectivity and touch screen capability to the simple small storage device with no display, the OEMs are able to provide devices that enter the market at different price points in order to suit a wider range of consumer budgets. Consequently, this flexibility in product mix has allowed the segment to adapt and adjust throughout the different cycles of the economy.

(Diagram iii) Key segment volume changes in 2009



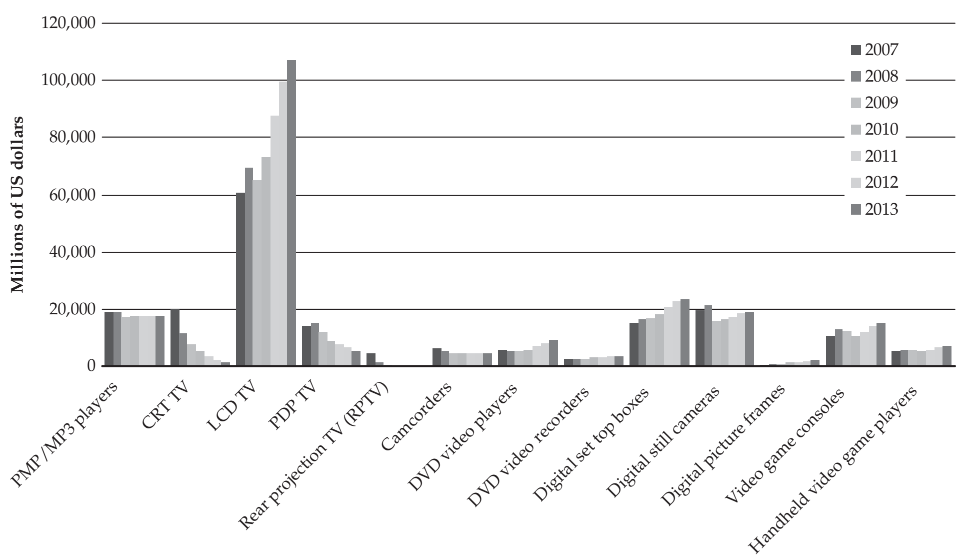
Source: iSuppli

Following a drop in revenue in 2009 as a consequence of the global economic downturn, consumer electronics revenues are expected to rise in 2010. LCD televisions, the largest segment by revenue (without taking into account of consumer white goods/appliances), will continue to be the largest segment through 2013. As consumers around the world make the transition to high-definition flat-panel LCD televisions, alternative television segments such as CRT, rear projection, and plasma will continue to decline. Set-top boxes ("**STB**") will also see an increase in revenue as a transition to high-definition televisions by consumers will subsequently raise the demand for premium features such as HD support and DVR.

Video game console and portable game device manufacturers will also continue to increase their revenues throughout the forecast period, especially when these manufacturers launch their next generation platforms.

While revenue from sales of PMP and MP3 players have also been impacted by the global economic downturn, the impact was slightly delayed compared to other devices. This is likely because consumers were able to "shift down the mix" to the lower-priced devices and continue to purchase these devices as popular holiday gifts. This segment is expected to continue recovering starting in 2010, however growth will be challenging with the influx of iPhone-type mobile phones that are gaining popularity.

(Diagram iv) Consumer electronics OEM factory revenue by key segments, 2007-2013



Source: *iSuppli*

Overall trends

Technologies driven

As technologies progress and become more standardized, overall cost of production declines. Numerous technologies that were previously only available in high-end electronic devices are now available to a wider variety of devices. For example, WiFi connectivity, an optional feature for notebook computers a few years ago, are now available in portable media players. Global positioning system ("**GPS**") technology, originally designed for military use and subsequently for serious outdoors enthusiasts, is available for use today in automobiles, mobile phones, add-ons for digital cameras and in personal/portable navigation devices.

Taking advantage of the relatively greater ease of manufacturing devices, the manufacturers of digital consumer electronics are currently producing devices of greater sophistication and advanced functionality. In turn, these sophisticated and advanced devices attract consumers and increase their willingness to purchase the latest devices. In turn, consumers are demanding more for their money, expecting greater functionality and being more prone to compare features among competitive devices. Often, customers will pay a reasonable premium for devices with a greater number of functions.

"Smart" devices

Not only are the consumer electronic devices becoming more enriched with features, they are becoming "smarter" by leveraging the processing power of DSP, ASIC or MCU semiconductor devices. These technologies, which are being adopted at greater amounts each year, allow for more sophisticated programming and complex algorithms that, in turn, enable smarter features and functionality. At present, there are smart phones capable of receiving emails from the Internet and provide navigation via GPS, and personal audio players that voice out song titles.

Convergence of personal/notebook computers, audio/video devices and mobile phones

As network, communication infrastructures and multimedia contents are becoming more conveniently available, consumers have increased their reliance on electronic devices to act as their primary gateway to voice calls, Internet browsing, audio and video applications, and imaging display.

Driven by silicon manufacturing and architectural advances, the processing performance of mobile phones, audio and video players are nearing that of PCs and notebook computers. These devices are able to run identical or highly similar fundamental operating systems ("**OS**") and graphical user interface ("**GUI**") as PCs. On the other hand, driven by expanding market, PC chip manufacturers are producing scaled-down PC chips that power netbook computers.

Consumers who have previously used notebooks for accessing emails and the Internet have changed to use netbooks and mobile devices such as mobile phones, PDAs, and portable media players to access information, such as emails to audio and video content via wireless services for hand-held devices and wireless networks (e.g. 3G/3.5G, and WiFi).

The availability of network infrastructure and technology advancements and consumer mobility needs, are driving the convergence of consumer electronics devices with "on-the-go" capabilities, and PC-like functionality. This gives rise to a new class of consumer electronics devices known as mobile Internet devices ("**MID**").

Specific product trends and markets

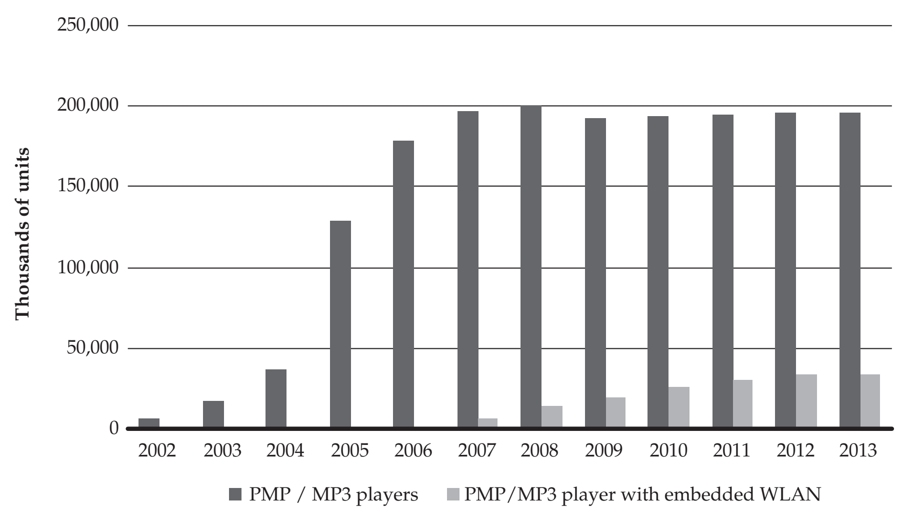
Portable media player (transforming into MID)

Worldwide unit shipments for MP3 players and portable media players ("**PMP**") together is forecasted to reach 196 million units in 2013, up from 178 million units in 2006. The PMP market is extending into MID market as wireless technology is added to provide connectivity to the Internet.

From 2002 to 2008, shipments of PMP/MP3 players increased significantly from 6.8 million units to 199.7 million units, representing a CAGR of approximately 75.6%. However, due to market maturity, the shipment volume of PMP/MP3 players is expected to remain relatively stable over the next few years.

A decline in the price of wireless chipsets in recent years has led to increasingly more PMP/MP3 players being embedded with wireless technology and allowing consumers to access the Internet. The number of PMP/MP3 players embedded with WLAN is forecasted to increase from 14.4 million units in 2008 to 33.5 million units in 2013, accounting for 7.2% and 17.1%, respectively, of the total number of PMP/MP3 players.

(Diagram v) Shipment of PMP/MP3 devices (standard and with network connectivity)



Source: iSuppli

Market share

The market for PMPs and MP3 players is fragmented. While Apple Inc. ("**Apple**") is the market leader, many player brands are available in the United States. In the PRC more than hundreds of products are available from over 150 brands. The number of companies that are actually responsible for manufacturing the players in the PRC and elsewhere accounts for an even greater number, estimated at up to 200.

Apple, the market leader, shipped 55 million units in 2008 for a market share of 27.8%. Philips was the second largest supplier, with approximately 3.5% of the market. Creative and Sony was third and fourth largest, respectively.

(Table i) Worldwide PMP/MP3 market share, 2008

	Shipments *(thousands of units)*	**Market share**
Apple	55,434	27.8%
Philips	6,890	3.5%
Creative	5,614	2.8%
Sony	5,320	2.7%
SanDisk	4,762	2.4%
Samsung	4,357	2.2%
Others	117,306	58.7%
Total	199,683	100%

Source: iSuppli

Key market drivers for growth of MP3/PMP

(I) Internet and broadband connectivity

When compared to other consumer electronics devices, PMP/MP3 players take a greater advantage of broadband Internet access because a majority of the music and video content played on PMP/MP3 players is downloaded from the Internet or copied from existing CDs to PCs and notebook computers, and then "side loaded" onto the players via a USB cable. However, given the increasing number of WiFi access zone and hot spots, users will increasingly rely on their WiFi players to download content directly from the Internet.

(II) Widespread audio and video content availability

Audio

The worldwide broadband digital music market grew to US$1.7 billion in revenue in 2007, with a split between downloads and subscriptions of 77% and 23% respectively. Growth in both segments will continue to be strong through 2012, although the music downloads will expand more rapidly than subscriptions.

The broadband download music market skewed heavily toward single-track downloads, which is a characteristic expected to continue.

While Apple's success has been based primarily on the single-track download music model, some of its competitors have favored a subscription-based business model. Typically, subscription-based business models allow access to a library of up to 2 million tracks for a fixed monthly fee of approximately between US$7 and US$10. Many major digital music distribution services favor the subscription model, although some offer both options. Major subscription services providers include Real Networks, Napster, and AOL Music. As the trend of music downloading continues, it will spur both the growth of online digital music and stimulate the PMP/MP3 market.

Video

The market for video content downloads is currently in the early stages of growth. However, this segment is expected to grow much more rapidly over the next few years. The worldwide broadband digital paid video market will grow from US$621 million in 2007 to US$6.7 billion in 2012.

The broadband digital video market includes a combination of television shows, music videos, and videos downloaded to PCs, notebooks, PMP/MP3 players, and other devices.

The amount of free video content is also increasing rapidly. The sources include new forms of advertising, news services, and "home grown" content, such as YouTube.

(III) Incorporation of new features into PMP/MP3

The widespread of audio and video content download is driven by the decline of the price of NAND flash and other chipsets or components featuring new functionality, allowing manufacturers to increase storage capacity (critical for video content) or implement new features such as WiFi connectivity, Bluetooth connectivity, and larger displays featuring new technologies such as touch-screens.

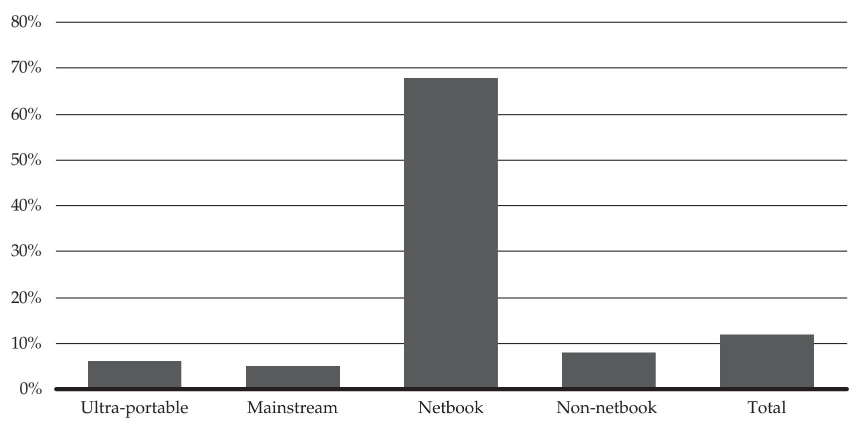
In summary, the increased demand for audio and video content as well as other new features on PMP/MP3 players have made these products more appealing to consumers. With PMP/MP3 players becoming a lifestyle product, some consumers own more than one player for use with different purposes, for instance, a consumer may have a larger player as the primary player and a smaller player used for fitness activities.

Netbooks

Netbooks are notebook computers that runs a fully functional operating system, which includes local storage capability, a keyboard and with wireless networking connectivity. Netbooks typically weigh less than three pounds, has a screen size of 7 to 10.2 inches, and are priced at less than US$600. The netbooks are primarily focused on Internet-centric capabilities and mobility.

For consumers who require only a basic computing experience, the netbook satisfies the need for a cheaper mobile computer and thus will be a key growth driver for the 2009 PC market.

(Diagram vi) Shipment growth by notebook segment, 2009

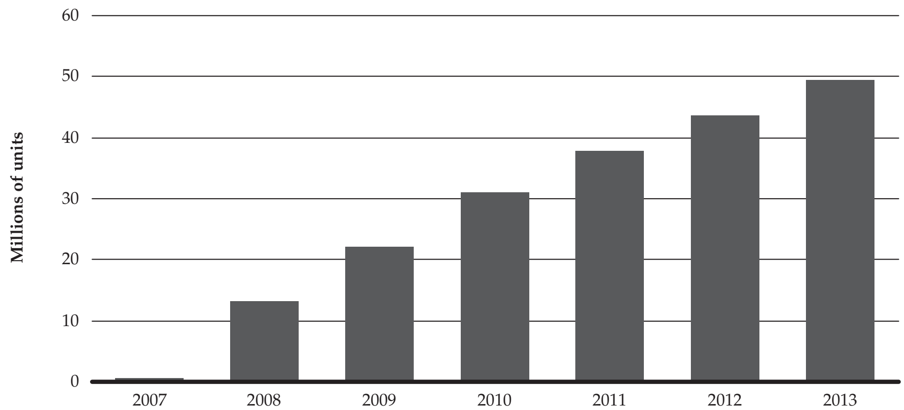


Source: iSuppli

Worldwide netbook forecast

Netbook shipments are expected to reach more than 22 million units worldwide in 2009, compared to overall notebook shipments of 156 million units.

(Diagram vii) Netbook shipment forecast, 2007-2013



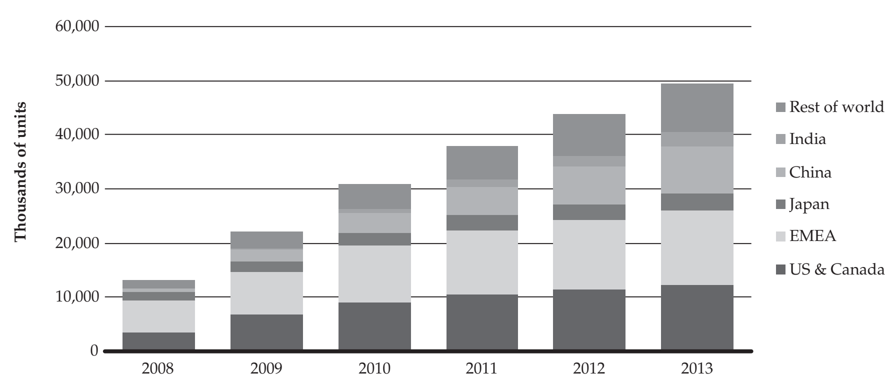
Source: iSuppli

Worldwide regional netbook forecast

Despite its original focus on emerging markets, the netbook platform has gained significant growth in the United States and EMEA, where the PC markets are mature. These two regional markets are forecasted to account for over 50% of worldwide netbook shipments throughout the 2008 to 2013 forecast period.

The PRC is forecasted to emerge as the next single largest market for the netbook platform, accounting for 17.5% of worldwide netbook unit shipments in 2013. In China, the netbook market is forecasted to grow by 260%. Netbooks are also poised to grow rapidly elsewhere, at 137% in North America, 88% in Latin America, and 81% in EMEA.

(Diagram viii) Regional netbook shipments forecast



Source: iSuppli

Key market drivers

(I) Cheaper platforms

At lower price points, netbooks are more affordable to consumers and will accommodate the considerable demand for cheaper mobile computing platforms.

Furthermore, with the global economic downturn and the lowered consumer propensity to spend, the netbook can serve the needs of consumers with less disposable income or consumers that are after lower prices.

(II) New market segmentation

In a reversal of the historical trend, the PC industry is currently undergoing a change in platform shipment mix in which mobile computers now ship more than desktop computers.

With the processor and graphics performance of the notebook computer now comparable to that of the desktop PC, the difference between the two computing platforms have become smaller.

In the same way, a change in shipment mix from desktop to notebook computers illustrates the increasing demand for mobile computing platforms and the declining demand for desktop computing platforms.

Netbooks remain targeted almost exclusively at the consumer PC market as their performance and technical specifications are insufficient to meet the requirements of the market. Possessing a very small form factor that aids mobility, netbooks can be obtained at a significantly lower price than the higher priced and business-focused ultra-portable notebooks that are currently on the market.

The matured PC markets are the key end markets for netbooks for a number of reasons, including a price point that is sufficiently low to allow the purchase of netbooks as a second or third PC, or as a first PC for children, teenagers and senior citizens.

Fitness monitors

Market size

Fitness monitors have a large selling price range. Polar Electro Oy and Suunto Oy, producers of sports instruments and heart-rate monitoring equipment, had sales of 161 million Euros in 2004 and 72 million Euros in 2005, respectively.

Key market drivers

According to American Heart Association, physical inactivity is a major risk factor for cardiovascular disease, and most Americans are not physically active enough to gain any health benefits. The guideline for healthy adults aged between 18 to 65 for physical activity is at least 30 minutes of moderate intensity activity for five days of the week.

Pedometers can be used to count the steps taken, and as a tool to motivate physical activities, while heart rate monitors can be used to measure the intensity of physical activities. Technology that captures and measures the physical activity has recently been the focal point for health plans who seek tangible data on the effectiveness of wellness solutions.

Pedometers

In 2008, Apple and Nike, Inc. released an iPod sports kit, a device which measures and records the distance and pace of a walk or run. The sports kit consists of a small accelerometer attached to or embedded in a shoe, which communicates with the receiver plugged into an Apple iPod Nano, or directly with an Apple iPod Touch or iPhone. The sports kit records the workout data and can be synchronized and stored on a designated website for analysis of the runs and share motivation with runners from across the world. There are other brands, such as Omron and Timex, that also offer pedometers products.

Heart rate monitors

Some monitors transmits heart rate data from a chest strap to a wrist watch-like monitor using wireless technology. There are some strapless products in the market aimed at improving user comfort.

There is a growing number of "fitness phones" and MP3 players incorporating fitness monitoring features and websites that offer data tracking and advanced analysis for users to create personalized training plans, track their performance and share their achievements with others.

THE EFFECT OF OUTSOURCING AND MARKET CONSOLIDATION IN THE VALUE CHAIN

Challenges faced by consumer electronics makers

With the consumer electronics market rapidly evolving, the makers of consumer electronic devices are under heavy competition to be the first to market and introduce devices that are unique and differentiated (see Table i for a ranking of leading OEMs). Successful devices in the consumer market are quickly matched and challenged by similar competitive devices, forcing makers to enhance their devices and support emerging technologies at a fast and continual basis.

The rise of "smarter" digital consumer electronic devices, with more complex features requires the application of extensive research and development, bringing more challenges to the makers. Manufacturers need to maintain a balance between keeping abreast of new technology, shortening development cycle in order to deliver time-to-market products to the marketplace, and allocating effort and energy in working with IC manufacturers.

For makers pursuing growth opportunities, a realignment of their product development strategy is imperative for introducing innovative products at faster time-to-market and with significant cost savings.

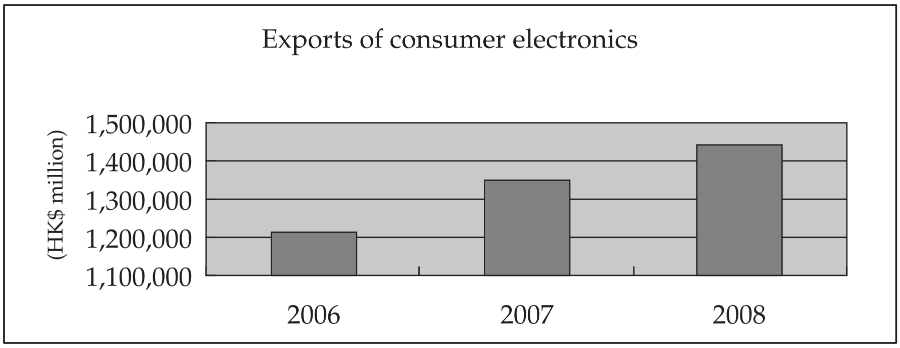
Challenges faced by consumer electronics manufacturers

The PRC is the world manufacturing hub with factories located mainly in Guangdong province, the PRC where many OEM and EMS are located, serving their customers, such as, ODM, OBM and brand name companies. In 2007, the electronic information industry of Guangdong Province, the PRC, recorded a production value of RMB1,396.7 billion, representing a year-on-year growth rate of 16.8%. The companies are facing challenges from rising wages, appreciation of RMB and the PRC's new Labor Contract Law. The global economic downturn has been a catalyst for these manufacturers to rise in the value-chain, and to look for new business opportunities. In their effort to moving away from low technology and labor intensive business, they face difficulties in upgrading their technology base and developing higher value products.

Pearl River Delta is the centre of the electronic information industry of Guangdong Province, the PRC. Export of electronic information industry was US$194.1 billion in 2007, representing 21.8% year-on-year growth rate, and accounts for 40.1% of national export of electronic information industry.

There were approximately 58,000 factories operated by Hong Kong companies in the Pearl River Delta. In 2007, there were more than 10,000 Hong Kong-owned electronic factories in the Pearl River Delta. Hong Kong manufacturers of finished electronic items produce mostly on OEM or ODM for reputable brand names for the overseas market. Hong Kong is the world's second largest exporter of calculators, radios, telephone sets, sound recording apparatus, computer parts/accessories and video recording/reproducing apparatuses (including DVD/VCD recorders/players) in 2009, with a total export of electronics products of HK$1,439.2 billion in 2008, which represents a year-on-year growth rate of 6.7%.

(Diagram ix) Hong Kong exports of consumer electronics, 2006-2008



Source: HKTDC

The rising demand for design companies

Design companies, with extensive knowledge in both IC technology and consumer electronics industry, act as the bridge between makers and IC manufacturers. They participate in the design process at the early stage and they add value to the functional design and implementation of the products.

Outsourcing has reached the highest level of the manufacturing supply chain which extends to research and development. By outsourcing research and development offshore, companies can freeze a portion of their research and development budgets while growing their product offerings. Currently, some Fortune 500 companies in consumer electronics are purchasing complete designs of some digital devices from Asian developers, adapting them to their own specifications, and then marketing under their own brand names. Asian contract manufacturers and independent design houses have become forces behind many devices, ranging from mobile phones, laptops and high-definition televisions to MP3 music players and digital cameras.

(Table ii) Leading digital consumer electronics manufacturers in the world

Leading digital consumer electronic manufacturers in the world**
LG
Panasonic
Philips
Samsung
Sharp
Sony
Toshiba

** Includes home appliances

Source: iSuppli

The challenges faced by manufacturers to move up the value chain have opened expansive business opportunities to design houses. Those manufacturers who desperately require the need to source design services, research and development and technology support will consider the design companies as great competition to their quest towards business transformation.

OVERVIEW

As at the Latest Practicable Date, our Group had established business presences in Hong Kong and in the PRC. Our Group is principally subject to the relevant laws and regulations in Hong Kong and in the PRC. This section sets out summaries of certain aspects of Hong Kong and PRC laws and regulations, which are relevant to our Group's operation and business.

HONG KONG

Our Company is incorporated under the laws of the Cayman Islands as an exempted company and has applied for the registration in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance. Our subsidiaries, PD (HK), PD Trading and IWC, are companies incorporated in Hong Kong under the Companies Ordinance. The Companies Ordinance, as supplemented by the common law and the rules of equity, therefore are applicable to our business operations in Hong Kong. Furthermore, we may also be subject to laws and regulations relating to intellectual property rights, amongst others, Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong), Patents Ordinance (Chapter 514 of the laws of Hong Kong), Copyright Ordinance (Chapter 528 of the Laws of Hong Kong), Registered Designs Ordinance (Chapter 552 of the Laws of Hong Kong) and their respective subsidiary legislations. Our Group is also subject to tort laws relating to products liability as some of our customers are located in Hong Kong. During the Track Record Period and up to the Latest Practicable Date, we have not received any material claims from third parties in relation to the use of our products or third party liability in Hong Kong.

THE PRC

中華人民共和國外資企業法 (The Wholly Foreign-owned Enterprises Law of the PRC*) and 中華人民共和國外資企業法實施細則 (The Implementation Regulations on the Wholly Foreign-owned Enterprises Law*)

According to 中華人民共和國外資企業法 (the Wholly Foreign-owned Enterprises Law of the PRC*) (the "**Wholly Foreign-owned Enterprises Law**"), which was promulgated on 12 April 1986 by the National People's Congress and amended on 31 October 2000 by the Standing Committee of the National People's Congress, the investments, the profits, and other lawful rights and interests of a foreign investor are protected in the PRC. A foreign investor may remit abroad profits and other legal earnings from a wholly foreign-owned enterprise, as well as any remaining funds when the enterprise is liquidated.

According to 中華人民共和國外資企業法實施細則 (The Implementation Regulations on the Wholly Foreign-owned Enterprises Law*), which was promulgated on 12 December 1990 by the Ministry of Foreign Trade and Economic Cooperation and amended on 12 April 2001 by the State Council of the PRC, the articles of association of a wholly foreign-owned enterprise shall become effective upon the approval by the examining and approving authority and the same procedures shall apply whenever any amendments thereto are made. Any division, merger, or any significant change in the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. A wholly foreign-owned enterprise shall engage a PRC qualified

* *For identification purposes only*

auditor for a capital verification report. Upon the approval by the examining and approving authority, registration of a wholly foreign-owned enterprise shall be filed with the Administrative Bureau for Industry and Commerce. Any increase or transfer of the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. A wholly foreign-owned enterprise shall, in accordance with PRC laws and regulations and provisions of the financial authority, set up its own financial and accounting systems and submit them to the local financial and tax authorities for their records.

計算機軟件保護條例 (The Regulations on the Protection of Computer Software*) and 計算機軟件著作權登記辦法 (The Measures for the Registration of Computer Software Copyright*)

Pursuant to 計算機軟件保護條例 (The Regulations on the Protection of Computer Software*) which was promulgated by the State Council of the PRC on 20 December 2001 and became effective on 1 January 2002, software created by Chinese citizens, legal persons or other organizations shall have copyright, regardless of whether or not it is published. The copyright in the software shall be commenced from the date on which the software is created. For the software copyrights of legal persons, the term of protection for the software copyright is 50 years, ending on 31 December of the fiftieth year after the first publication of the software. Software copyright owners may obtain registration from the software registration agencies acknowledged by the copyright administrative department under the State Council. The registration certificate issued by the software registration agencies shall be the preliminary evidence for the registration.

Software copyrights could be licensed and transferred. In the case of technology development commission, the ownership of copyright in the software which is created under the commission of other persons shall be stipulated in a written contract by the commissioning and commissioned parties. In the absence of such a written contract or an explicit stipulation in the contract, the copyright in that software shall belong to the commissioned party.

Pursuant to the 計算機軟件著作權登記辦法 (The Measures for Registration of Computer Software Copyright*) promulgated by the State Bureau of Copyright on 20 February 2002, software copyright owners may follow registration procedures with the State Bureau of Copyright and obtain a Registration Certificate of Software Copyright, which is the prima facie proof of copyright ownership.

專利法 (The PRC Patent Law*) and the Implementation Rules for 專利法實施細則 (the Patent Law of the PRC*)

Pursuant to 專利法 (The PRC Patent Law*) and 專利法實施細則 (The Implementation Rules for the Patent Law of the PRC*), patent rights include inventions, utility models and designs. The State Intellectual Property Office under the State Council accepts and examines patent applications and grants patent rights in accordance with law.

* *For identification purposes only*

Any invention or utility model for which a patent right may be granted must possess the characteristics of novelty, inventiveness and usefulness. Any design for which patent right is to be granted shall possess the characteristic of novelty and with a clear difference from the well-known design, and shall not be in conflict with any prior legal rights of any other person.

After the grant of the patent right for an invention or utility model, no entity or individual may, without the authorization of the patentee, exploit the patent, which means, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes, except where otherwise provided for in the PRC. After the grant of the patent right for a design, no entity or individual may, without the authorization of the patentee, exploit the design, which means, make, offer to sell, sell or import the product incorporating its or his patented design, for production or business purposes.

財政部、國家稅務總局關於貫徹落實《中共中央、國務院關於加強技術創新，發展高科技，實現產業化的決定》有關稅收問題的通知 (財稅字(1999) 273號) (The Circular of the Ministry of Finance and the State Administration of Taxation on Tax Issues Related to the Implementation of the Decision of the CPC Central Committee and State Council on Strengthening Technical Innovation, Development of High-tech and Realization of Its Industrialization*)

Pursuant to 財政部、國家稅務總局關於貫徹落實《中共中央、國務院關於加強技術創新，發展高科技，實現產業化的決定》有關稅收問題的通知(財稅字(1999) 273號) (The Circular of the Ministry of Finance and the State Administration of Taxation on Tax Issues Related to the Implementation of the Decision of the CPC Central Committee and State Council on Strengthening Technical Innovation, Development of High-tech and Realization of Its Industrialization*) issued on 2 November 1999, the turnover tax is exempted with respect to the income sourced from the business of technical transfer, technical development and relevant technical consultancy and technical service. Such tax preference is applicable to all entities and individuals including foreign investment enterprises.

對外貿易經營者備案登記辦法及相關規定 (The Rules for Filing and Registration Procedures of Foreign Trade Operators and other related regulations*) and 商務部關於進一步下放對外貿易經營者備案登記工作有關問題的通知 (the Notice on Relevant Issues Concerning Further Decentralizing the Archival Filing and Registration of Foreign Trade Operators issued by MOFCOM*)

According to 對外貿易經營者備案登記辦法及相關規定 (The Rules for Filing and Registration Procedures of Foreign Trade Operators and other related regulations*) (Promulgated by the Ministry of Commerce on 25 June 2004 and become effective as of 1 July 2004), foreign trade operators that engage in the import and export of goods or technology shall complete the filing and registration procedures with the Ministry of Commerce of the People's Republic of China (the "**MOFCOM**") or an authority entrusted

* *For identification purposes only*

by MOFCOM. The filing and registration authority shall handle the filing and registration procedures and affix the filing and registration seal on the registration form within five days after the date of receipt of the relevant full set of materials submitted by the foreign trade operator. A foreign trade operator shall not forge, falsify, alter, lease out, lend out, assign or sell any registration form.

According to 商務部關於進一步下放對外貿易經營者備案登記工作有關問題的通知 (The Notice on Relevant Issues Concerning Further Decentralizing the Archival Filing and Registration of Foreign Trade Operators issued by MOFCOM*) (Promulgated by MOFCOM on 23 January 2009 and become effective on the same date), in order to promote a stable increase of the export, it is requested that the provincial commerce departments (including the Autonomous Regions and the Municipalities directly under the Central Government), which have not appointed the commerce departments of Prefectural-Level city to handle the filing and registration procedures of foreign trade operators, shall study and convey the relevant documents further, study the applications of the commerce departments of Prefectural-Level city in time, and presents the list of eligible applications to MOFCOM. MOFCOM will review and approve the applications and notify the local commerce departments in time.

國務院辦公廳關於促進服務外包產業發展問題的復函 (Reply of the General Office of the State Council on Issues Concerning Promoting the Development of the Services Outsourcing Industry*)

According to 國務院辦公廳關於促進服務外包產業發展問題的復函 (Reply of the General Office of the State Council on Issues Concerning Promoting the Development of the Service Outsourcing Industry*) (Promulgated on 15 January 2009 and become effective on the same date), 20 cities including but not limited to Beijing, Shanghai, Dalian and Shenzhen were listed as China's service outsourcing model cities to further undertake the international service outsourcing business and to promote the development of the service outsourcing industry. Among others, the following policies were adopted in the abovementioned cities:

1. From January 1, 2009 until December 31, 2013, for a qualified technologically advanced service enterprise outsourcing, corporate income tax will be reduced at the rate of 15%, and the educational costs of its employees that do not exceed 8% of the total sum of employees' salaries are to be deduced before corporate income tax. The turnover tax is exempted with regarding to out-shore service outsourcing of technologically advanced service enterprise.

2. For the service outsourcing enterprises using advanced technology which are eligible and conforming the administrative standard of employment, in some work positions of which the standard working hours system can not be executed due to the characteristics of the work, the special working hours system can be executed after having obtained the approval of the local provincial human resources and social security department is obtained.

3. Encouraging the governments and enterprises to outsource data processing and the other businesses which are not confidential to the professional enterprises by purchasing services and other methods.

* *For identification purposes only*

4. To set up and improve the customs clearance system suitable for the characteristic of the service outsourcing industry, and provide relevant convenience for the customs clearance.

軟件產品管理辦法 (Administrative Measures for Software Products*)

According to 軟件產品管理辦法 (Administrative Measures for Software Products*) (Promulgated by the Ministry of Industry and Information Technology on 1 March 2009 and become effective as of 10 April 2009), the developing, producing, selling, importing and exporting activities of the software products shall comply with the related law, regulations and standards. It is banned for any unit or individual to develop, produce, sell, import or export software products with contents of the following:

1. violating the intellectual property rights of others;

2. carrying computer virus;

3. endangering the computer system;

4. not meeting the software standard specifications in China; and

5. carrying contents forbidden by the law and the administrative regulations in the PRC.

As confirmed by King & Wood PRC Lawyers, our legal advisors as to PRC law, based on the relevant certificates issued by the relevant PRC authorities, our only subsidiary incorporated in the PRC, PD Shenzhen, has complied with all the relevant PRC regulatory requirements and obtained all relevant PRC permits/licenses for its operations.

To ensure ongoing compliance with the relevant PRC regulatory requirements, we have adopted the following measures, among others:

(1) We have assigned an in-house legal counsel to monitor both current and newly promulgated PRC laws and regulations applicable to PD Shenzhen and the operation of our Group in the PRC;

(2) PD Shenzhen has assigned specific personnel in charge of affairs relating to the intellectual property of PD Shenzhen and responsible for obtaining, maintaining and reviewing the permits and licenses issued or to be issued to PD Shenzhen; and

(3) PD Shenzhen will consult external PRC legal counsel for further advice on PRC law, where appropriate.

* *For identification purposes only*

OTHER JURISDICTIONS

As at the Latest Practicable Date, members of our Group had registered certain patents in the US and the EU. We are therefore subject to the laws and regulations relating to intellectual property rights in such jurisdictions. Furthermore, we may also be subject to the laws and regulations relating to products liability in those geographical regions where we also export our products, including but not limited to Europe and the US. During the Track Record Period and up to the Latest Practicable Date, we have not received any material claims from third parties in relation to the use of our products or third party liability in these jurisdictions.

OUR HISTORY AND DEVELOPMENT

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

PD (HK) and PD (BVI)

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

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

PD Trading

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

PD Shenzhen

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

History of our business

Our first product was the digital multimedia jukebox, which was launched in 2000, utilizing our proprietary DSP-based algorithm. At the time of the launch, we filed patent for the design of the digital multimedia jukebox in the US. It has since been our practice to file patents for any innovative designs or technologies developed by us. Since 2002, leveraged on our research and development capability, we have gradually widened our product range by developing different types of digital consumer electronic devices, most of which were DSP-based. Notable products we had developed in the past include but not limited to digital audio player with recording function (2001), digital audio player with hard disk drive (2003), portable media player (2006), digital photo frame (2007), mobile phones (2008), water-proof digital mobile television (2008), well-being and fitness products (2009), netbook computers (2009) and multimedia Internet devices (2009). At the same time, we continued to grow in terms of revenue as well as head counts.

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

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

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

OUR CORPORATE REORGANIZATION

In preparation for the Listing, we underwent the Corporate Reorganization which consisted primarily of the following steps:

- the incorporation of our Company
- capitalization of loans provided to PD (BVI) by related parties
- allotment of additional nil paid Shares
- acquisition of PD (BVI) by our Company

Incorporation of our Company

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

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

Capitalization of shareholders' loans of PD (BVI)

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

Allotment of additional nil paid Shares

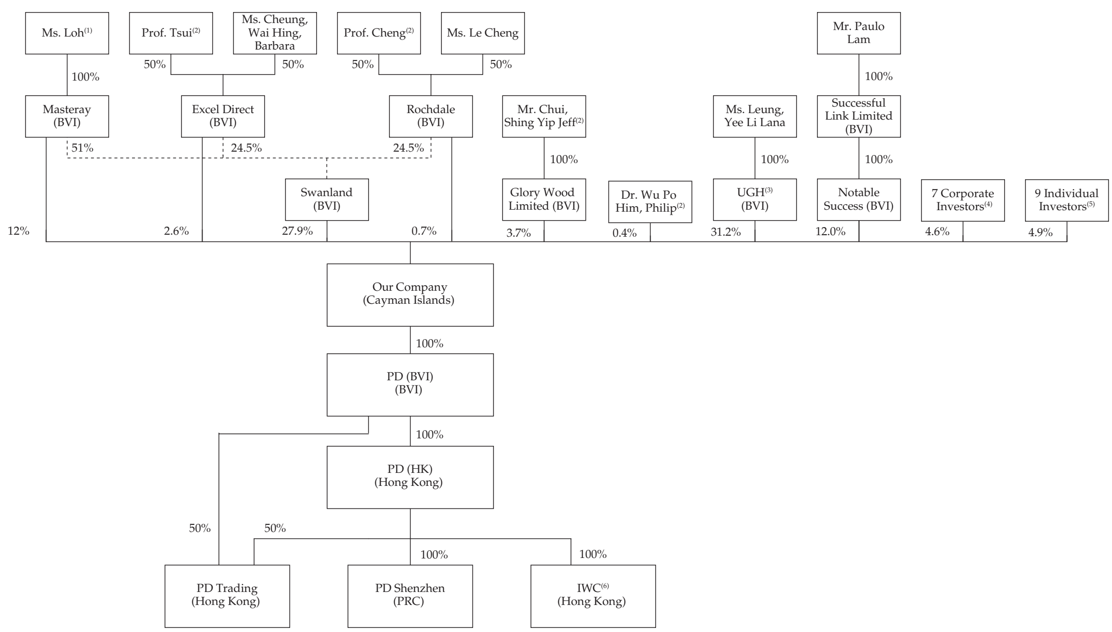
Pursuant to a resolution passed in a meeting of Directors on 27 November 2009, our Company issued and allotted, at nil paid, 36,834 Shares to Swanland, 41,201 Shares to UGH, 15,787 Shares to Masteray, 15,895 Shares to Notable Success, 3,491 Shares to Excel Direct, 873 Shares to Rochdale, 4,888 Shares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

Acquisition of PD (BVI) by our Company

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

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE THE SHARE OFFER

Set our below is the shareholding structure of our Group after the Corporate Reorganization and immediately prior to the Capitalization Issue and the Share Offer:



Notes:

(1) Ms. Loh is the spouse of Dr. Lau, an executive Director.

(2) Each of Prof. Tsui, Prof. Cheng, Mr. Chui, Shing Yip Jeff and Dr. Wu Po Him, Philip is a Director.

(3) UGH is an investment holding company and a passive and independent investor of our Group. As at the Latest Practicable Date, UGH was wholly owned by Ms. Leung, Yee Li Lana, the spouse of Mr. Heung, Lap Chi Eugene and Mr. Heung, Lap Chi Eugene is an acquaintance of Dr. Lau. UGH, Mr. Heung, Lap Chi Eugene and his spouse have not been involved in the operation or management of our Group. Mr. Heung, Lap Chi Eugene previously served as a director of PD (BVI) in a non-executive role and had never been involved in the operation or management of our Group. He resigned as the director of PD (BVI) on 4 January 2007. There is no shareholders' agreement between UGH and other shareholders of our Company.

(4) As at the Latest Practicable Date, the seven corporate investors and their respective beneficial shareholdings were:

Corporate investors	Approximate percentage of ownership
Starnet Development Overseas Limited	0.9%
HKUST R&D	0.8%
ExcelStor Great Wall Technology Ltd.	0.6%
Capital Gain (H.K.) Ltd.	0.6%
Thorough Bred Limited	0.6%
Tritec Limited	0.6%
Wellcorp Limited	0.5%

Each of Starnet Development Overseas Limited, HKUST R&D, ExcelStor Great Wall Technology Ltd., Capital Gain (H.K.) Ltd., Thorough Bred Limited, Tritec Limited and Wellcorp Limited is an Independent Third Party. None of these corporate investors is involved in managing the business of our Group.

Each of Starnet Development Overseas Limited, ExcelStor Great Wall Technology Ltd., Capital Gain (H.K.) Ltd., Thorough Bred Limited, Tritec Limited and Wellcorp Limited is an investment holding company incorporated in the BVI. HKUST R&D is a company incorporated in Hong Kong and is wholly owned by HKUST, which serves as the business arm of HKUST to commercialize research conducted at HKUST.

(5) As at the Latest Practicable Date, the nine individual investors and their respective beneficial shareholdings were:

Individual investors	Approximate percentage of ownership
Tang Tai Kwan, Jimmy	1.2%
Yung Chi Wai	1.2%
Wong Yuen Mee	0.6%
Yu Wong, Yin Fun	0.6%
Professor Ko Ping Keung	0.3%
Dr. Curtis Chih-shan Ling	0.3%
Professor Charles Giona Sodini	0.3%
Cheng Miu Wah, Rita	0.2%
Chi Hung Hui	0.2%

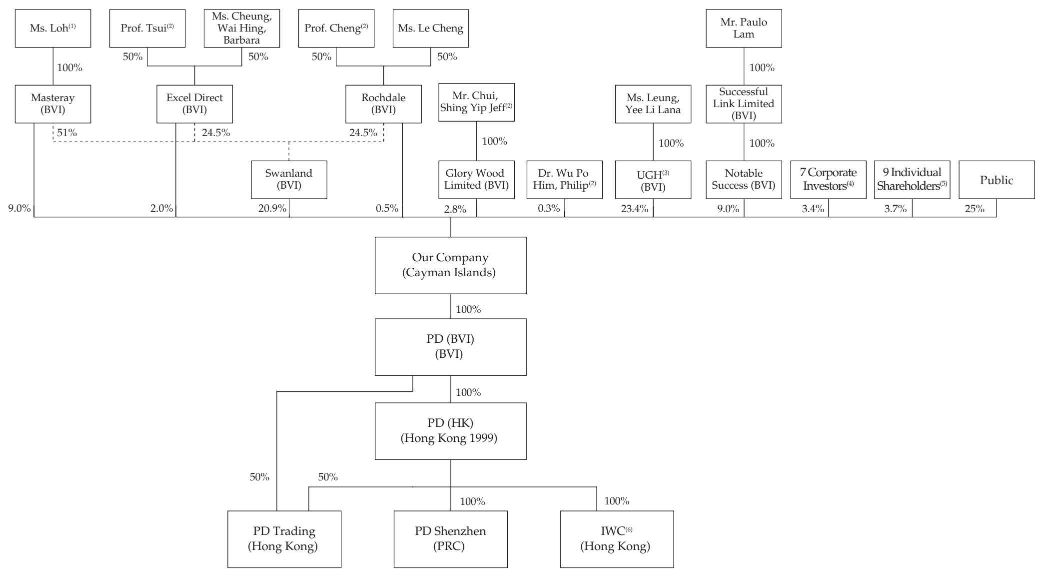
Tang Tai Kwan, Jimmy was a former employee of our Group who worked as an engineer prior to his departure. Yung Chi Wai was a former director of PD(HK). Each of Tang Tai Kwan, Jimmy, Yung Chi Wai, Wong Yuen Mee, Yu Wong, Yin Fun, Professor Ko Ping Keung, Dr. Curtis Chih-shan Ling, Professor Charles Giona Sodini, Cheng Miu Wah, Rita and Chi Hung Hui is an Independent Third Party.

(6) IWC is an inactive subsidiary and may be used as a company vehicle to conduct any merger and acquisition activities after the Listing. IWC has been dormant and has not conducted any business since its incorporation.

(7) No individual investors who had participated in the key stages of development of our Group but had left us before or during the Track Record Period had had any material impact on our business operation and financial performance arising from his/her departure.

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP UPON COMPLETION OF THE SHARE OFFER

Set our below is the shareholding structure of our Group upon completion of the Capitalization Issue and the Share Offer (assuming the Over-allotment Option is not exercised):



Notes:

(1) Ms. Loh is the spouse of Dr. Lau, an executive Director.

(2) Each of Prof. Tsui, Prof. Cheng, Mr. Chui, Shing Yip Jeff and Dr. Wu Po Him, Philip is a Director.

(3) UGH is an investment holding company and a passive and independent investor of the Group. As at the Latest Practicable Date, UGH was wholly owned by Ms. Leung, Yee Li Lana, the spouse of Mr. Heung, Lap Chi Eugene and Mr. Heung, Lap Chi Eugene is an acquaintance of Dr. Lau. UGH, Mr. Heung, Lap Chi Eugene and his spouse have not been involved in the operation or management of our Group. Mr. Heung, Lap Chi Eugene previously served as a director of PD (BVI) in a non-executive role and had never been involved in the operation or management of our Group. He resigned as the director of PD (BVI) on 4 January 2007. There is no shareholders' agreement between UGH and other shareholders of our Company.

(4) The seven corporate investors and their respective beneficial shareholdings immediately after the Share Offer will be:

Corporate investors	**Approximate percentage of ownership**
Starnet Development Overseas Limited	0.7%
HKUST R&D	0.6%
ExcelStor Great Wall Technology Ltd.	0.5%
Capital Gain (H.K.) Ltd.	0.4%
Thorough Bred Limited	0.4%
Tritec Limited	0.4%
Wellcorp Limited	0.4%

(5) The nine individual investors and their respective beneficial shareholdings immediately after the Share Offer will be:

Individual investors	**Approximate percentage of ownership**
Tang Tai Kwan, Jimmy	1.0%
Yung Chi Wai	1.0%
Wong Yuen Mee	0.4%
Yu Wong, Yin Fun	0.4%
Professor Ko Ping Keung	0.2%
Dr. Curtis Chih-shan Ling	0.2%
Professor Charles Giona Sodini	0.2%
Cheng Miu Wah, Rita	0.2%
Chi Hung Hui	0.1%

(6) IWC is an inactive subsidiary and may be used as a company vehicle to conduct any merger and acquisition activities after the Listing. IWC has been dormant and has not conducted any business since its incorporation.

OVERVIEW

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

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

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

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

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

<u>Wireless</u>
Bluetooth (AVRCP, A2DP)
WiFi-wireless network 802.11b/g/n

<u>Multimedia content</u>
YouTube video clip download
Rhapsody-ready
DRM (Napster-to-go, audible book, BBC iplayer)

<u>Audio and video</u>
Active noise cancellation
Voice prompt
DSP
Humming search

<u>Biometric</u>
Three-axis G-sensor control accelerometer to detect distinct motions
Heart rate monitoring via near-field infra-red signal

<u>Device user interface</u>
Android
OneUX UI system

<u>Broadcasting</u>
Multiple digital broadcasting standards (such as OneSEG)

<u>Web2.0</u>
Facebook connectivity

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

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

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

OUR COMPETITIVE STRENGTHS

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

Our research and development capability

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

Our design supply chain management business model

We specialize in design supply chain management and we offer "end-to-end" customized turnkey solutions to our customers. While our strength is mainly in our design and technology capability, we also provide services along the value chain, including concept consultation, technology feasibility study, embedded firmware, software, hardware, mechanical and industrial design and development, intellectual property research, material and component sourcing, packaging design, manufacturing, packaging, quality management, shipping, logistic management and after sales support. The ability to offer these services enable us to flexibly cater for the needs of different types of customers, from customers that mainly require the industrial design and firmware and software development, to others which, on top of software and hardware design, would require more comprehensive services such as sourcing, manufacturing, packaging and logistic management. In addition, by managing the entire design supply chain, we are able to monitor all the relevant processes in the supply chain, and have better control in timing, product quality and cost of our products.

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

Our relationship with HKUST

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

The experience and expertise of our senior management

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

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

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

Our relationship with IC manufacturers

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

Our customers are worldwide leading and renowned

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

OUR STRATEGIES AND BUSINESS OBJECTIVES

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

Product and technology development

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

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

We launched our well-being and fitness products in 2009. It is our plan to expand our product offerings in such area. Currently, we are leveraging on our know-how in DSP technology in developing an earphone which can monitor the heart rate of an individual using the infra-red transmitted in the earplug of such earphone. Such product, when compared with traditional heart rate monitoring products, is more convenient and ready-to-use in everyday life. We have already applied for registration of patent of such design. Following the heart rate monitoring features, we intend to further develop other biometric measurement features, such as glucose and blood pressure monitoring, to be included in our well-being and fitness products. Our well-being and fitness products are based on technologies that were recently developed by us in-house. We have filed 16 patents for the relevant technologies and so far two patents in relation to our well-being and fitness products have been granted. Furthermore, we are not aware of any similar products, namely digital audio players with biometric measurement functions that are available in the market. As such, we consider that we have considerable first mover advantage as well as expertise in this type of products which we believe will be one of the growing areas in the future. We are considering forming strategic partnerships with some of the worldwide leading well-being and fitness manufacturers to co-develop new products and have made contact with potential partners. However, as at the Latest Practicable Date, we had not entered into any definitive agreements with any of such potential partners in this regard.

Enhancing Web 2.0 features on our products

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

Open source-based devices

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

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

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

Development of netbook computer solutions

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

Broadening our market coverage and expansion of our sales network

A key objective of our growth strategy is to broaden our market coverage. We intend to expand our existing sales and distribution network. Geographically, we plan to explore the Asian market, in particular, the PRC market. Having obtained the certifications of our products including but without limitation to the compulsory product certification and the permission to connect to the network regulated domestically in the PRC, we plan to establish the sales and distribution network targeting the PRC internal consumption market. Certain products under development, including Internet television set-top box and netbook computer, are specifically designed for the PRC market. We are actively seeking to form strategic alliance with PRC manufacturers to accelerate the penetration of our products in the PRC market, with an aim to be able to successfully promote and license our technologies to the PRC manufacturers of consumer electronic devices. We signed a memorandum of understanding (the "**MOU**") on 19 May 2009 with one of the leading electronic and information technology corporations in the PRC according to a study by the Ministry of Industry and Information Technology of the PRC in 2009, which is principally engaged in the manufacturing and sale of color television sets, trading of related components, and the manufacturing and sale of other audio-visual products. Furthermore, such corporation is one of the leading audio-visual products manufacturers in the PRC. Pursuant to the MOU, such PRC corporation shall engage us to design and manufacture various electronic input and set top devices for its television related products. Each party shall bear its own costs and expenses in relation to any effort, work and engagement expelled to achieve the purpose set out in the MOU. Each party shall retain its ownership of intellectual property rights. The term of the MOU shall expire on 31 December 2009 unless extended by mutual consent of the parties. We are currently in discussion with such PRC corporation in relation to the extension of the MOU. Since we have been developing digital mobile devices such as mobile televisions, plus our know-how in DSP technology, we believe that we possess the relevant expertise, technology and research and development capacity to fulfill any order under the MOU. As at the Latest Practicable Date, no definitive agreement had been entered into as both parties were in discussions and had not reached an agreement on the terms of cooperation.

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

Enhancing our research and development capability

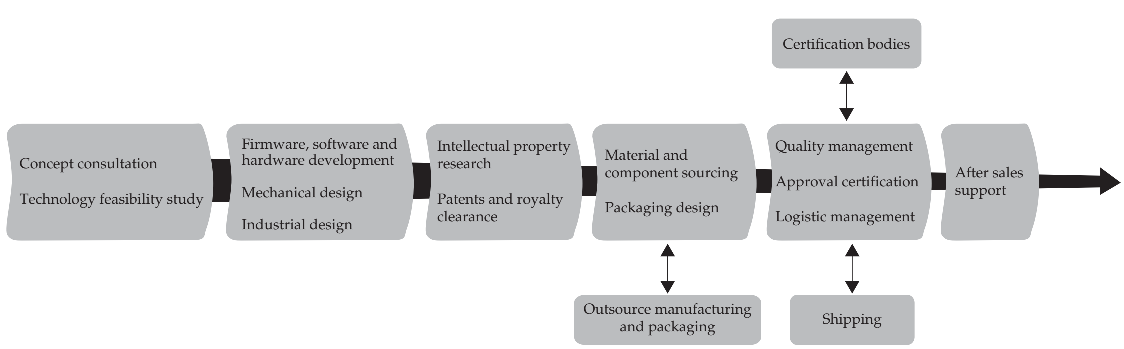
Along with product and technology development, we aim to continue our investments in research and development. We intend to recruit and train more research and development staffs, in particular for our well-being and fitness product solutions. At the same time, we will seek to explore possible collaboration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

Possible merger and acquisition opportunities

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

OUR BUSINESS MODEL

Design supply chain



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

The key stages for a complete turnkey solution include:

- *Concept consultation and technology feasibility study*

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

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

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

- *Intellectual property research and patents and royalty clearance*

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

- *Material and component sourcing and packaging design*

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

- *Manufacturing and packaging*

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

- *Quality management and approval certification*

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

- *Shipping and logistic management*

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

- *After sales support*

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

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

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

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

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

PRODUCTS AND SOLUTIONS

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

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

Sales of products

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

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

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

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

(i) Well-being and fitness products

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

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

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

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

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

"Live-Lite" series

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

(ii) Personal portable entertainment devices

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

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

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

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

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

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

	Product number	Descriptions	Sold by our Group	Launch year
	PD3040	Bluetooth headset with A2DP and AVRCP support, caller ID support, reject call, call waiting, last number redials, missed call display, FM radio and MP3 player functions	Yes	2009
	PD6240	MP3 and video player with SDHC support, photo display, FM radio, text file reader, voice recording, and FM recording functions, and built-in speaker	Yes	2008
	PD6340	MP3 and video player with SDHC support, Rhapsody support, 3.5" LCD display, photo display, FM radio functions, and built-in speaker	Yes	2008
	PD6300	Headset-free MP3 player targeting for children with hearing safety, simple play/stop, next song and previous song buttons, stores up to 16 hours of music, plays a wide range of educational content from audio books to language instruction	Yes	2008
	PD6070	MP3 player with 2-color OLED display, voice recording and FM radio functions	Yes	2008

	Product number	Descriptions	Sold by our Group	Launch year
	PD6050	MP3 and video player with photo display, FM radio, voice recording, FM recording and music library functions, and built-in speaker	Yes	2007
	PD6060	MP3 player with direct USB connection, FM radio and folder support functions	Yes	2007
	PD205	MP3 player with FM radio function, 1.5" LCD display SD/MMC support	Yes	2006

(iii) "Life-style" consumer electronic devices

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

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

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

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

	Product number	Descriptions	Sold by our Group	Launch year
	PD5020	Digital photo frame with on-line photo album, RSS instant message, Internet radio, clock and calendar, wireless connection, photo display and video viewing, multiple format memory card support and with remote control	Yes	2008
	PD5060	Water-resist digital television, FM radio, video in/out and with remote control	Yes	2008
	PD7080	Digital voice recording device with Auto Gain Control (AGC), Auto Level Control (ALC) and Voice On Record (VOR) features, PCM format file editor, audio playback, external micro-SD memory card support	Yes	2007
	PD8060	Portable 1.8" hard disk drive storage, built-in USB cable blinking LED which indicates drive's activity	Yes	2007
	PD5000	Mini HiFi system with hard disk drive storage media, can copy files from SD/MMC memory card or external audio player to internal hard disk, fill-it-up technology, AM/FM radio, radio recording and line-in recording, with remote control	Yes	2005

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

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

Licensing of technologies and provision of research and development services

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

TECHNOLOGY RESEARCH AND DEVELOPMENT

Our research and development department

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

We consider our research and development capability as one of our core competitive strengths. Furthermore, we believe our future success will depend in part on our ability to continue technological advancement and deliver advanced products and technologies to our customers and potential customers. Our research and development team works closely with our sales and marketing team, project management team, quality control team as well as the research and development teams of our customers and IC suppliers to develop the solutions and products to meet our customers' needs. Due to our relationship with the IC manufacturers that we have cultivated over time, we are provided with access to the SDKs and source codes of their respective operating systems, thereby allowing us to modify the Embedded Operating Systems with these IC manufacturers to support different devices and applications in order to meet specific requirements of our customers and to accumulate knowledge and experience at an earlier time than otherwise.

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

Our technologies

We strive for innovation and invention. Since the commencement of our business in 1999, we have developed various consumer electronic products which we consider to be innovative at their respective launch time, such as digital recordable jukebox (2000), one-inch hard disk drive digital audio players (2004), portable media player (2006) and well-being and fitness products (2009). Recently, we are in the process of developing open source-based electronic devices such as mobile television devices, smartphone, and netbook computers, as detailed in the section headed "Future plans and prospects" in this prospectus.

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

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

We generally seek patent protection on any new technology developed by us. We utilize these proprietary technologies in providing our customers with ready-made applications for integration into their products. In addition, we may also license our technologies, where appropriate, in return for patent royalty income. As at the Latest Practicable Date, we had filed 41 patent applications in the US, the PRC and EU for the designs and technologies we have developed, out of which 16 had been granted to us and the remaining being reviewed by the respective patent registration offices. From the experience of our Group, it is not uncommon to take more than two years to obtain government approvals for patent applications in the US, EU and the PRC, in particular in developed countries such as the US and we generally took two to five years to complete a patent application in the US, EU and the PRC. Given the aforesaid, we do not consider that we will have any difficulties in obtaining government approvals for our patent applications. For each of the two years ended 31 December 2008 and the six months ended 30 June 2009, our royalty license income accounted for approximately 5.2%, 6.8% and 6.7% of our turnover, respectively.

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

Wireless
Bluetooth (AVRCP, A2DP)
WiFi-wireless network 802.11b/g/n

Multimedia content
YouTube video clip download
Rhapsody-ready
DRM (Napster-to-go, audible book, BBC iplayer)

Audio and video
Active noise cancellation
Voice prompt
DSP
Humming search

Biometric
Three-axis G-sensor control accelerometer to detect distinct motions
Heart rate monitoring via near-field infra-red signal

Device user interface
Android
OneUX UI system

Broadcasting
Multiple digital broadcasting standards (such as OneSEG)

Web2.0
Facebook connectivity

Our solutions and products are mainly based on our proprietary DSP technology. Our DSP technology, which uses self-developed algorithms, enables our devices to output quality sound with minimal data loss resulting from data compression. Since our incorporation in 1999, we have developed a portfolio of technologies for our customers. Our major milestones on product developments are as follows:

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

Current research and development projects

Well-being and fitness products

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

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

Open source-based consumer electronic devices

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

Research and development costs

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

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

Our research and development costs (excluding deferred expenditure amortized) represented 4.0%, 4.7% and 4.7% of our revenue for the two years ended 31 December 2008 and the six months ended 30 June 2009, respectively.

SALES AND MARKETING

Sales and marketing department

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

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

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

Sales

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

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

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

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

Pricing and credit policy

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

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

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

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

Our customers

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

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

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

SUPPLIERS, RAW MATERIALS AND COMPONENTS

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

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

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

During the Track Record Period, we worked with one subcontractor in the year ended 31 December 2007 and two subcontractors in each of the year ended 31 December 2008 and the six months ended 30 June 2009. Our subcontractors have all been certified by certain of our customers and except for one subcontractor which closed down its business in 2008, our subcontractors have all been operating in the PRC for over 11 years. We determine the subcontracting charges based on a fixed price per product sold by the subcontractors on a case by case basis. We are not subject to any minimum purchase requirement in our subcontracting arrangements with our subcontractors. The subcontracting charges are normally settled within 90 days. There are no fixed terms in the agreements between us and our subcontractors and both we and the subcontractors are entitled to terminate our business relationship upon the default of the other party with an advanced notice for a period of three months.

In 2008, one of our major subcontracting OEMs went out of business and we lacked the capacity to provide our customers with "end-to-end" solutions during April to December. As an interim measure, we subcontracted certain processes, such as the manufacturing of PCBA to another subcontracting OEM, while instead of providing "end-to-end" solutions, we delivered semi-finished products and components to our customers for their further assembly while we continued focusing on the design and development of embedded firmware and applications. In 2009, we assisted such subcontracting OEM to obtain the approval of one of our key customers and we were able to resume providing "end-to-end" solutions to this particular customer in 2009. We did not receive any claim for compensation from any of customers arising from this incident and our arrangements. Since 2009, we have an internal policy of hiring at least two subcontracting OEMs and ensuring that they have reserved production capacity in order to mitigate our reliance on any particular subcontracting OEM. Also, by hiring multiple subcontracting OEMs, we also mitigate the risk of material shortage and insufficient capacity of any particular subcontracting OEMs.

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

QUALITY ASSURANCE

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

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

Incoming quality assurance

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

In-process quality assurance

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

Outgoing quality assurance

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

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

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

COMPETITION

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

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

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

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

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

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

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

INSURANCE

We currently maintain the following insurance policies:

- transportation and vehicle insurance policies;

- property damage insurance for our stock in trade in our office located at Flat A and C, 8th Floor, Shaw House, Lot 220, Clear Water Bay Road, Hong Kong;

- comprehensive export credit insurance against the failure of our customers to pay all or part of the invoice value of our goods;

- commercial liability insurance against losses related to bodily injury and property damage liability arising from our products worldwide and losses related to first party and third party products recall expense; and

- office package insurance against material damage, business interruption, public liability and employees' compensation, etc.

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

ENVIRONMENTAL PROTECTION

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

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

* *For identification purposes only*

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

PROPERTY

We lease and obtain license of properties for use in our business operations.

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

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

INTELLECTUAL PROPERTIES

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

As at the Latest Practicable Date, we had filed 41 patents in the US, the PRC and EU for the designs and technologies we have developed, out of which 16 had been successfully granted to us. Currently, all of our products are manufactured in the PRC and our intellectual properties in relation to these products are protected to the extent that patents are granted to us in the PRC. We will continue to actively apply for patent registrations for our designs and technologies in the PRC, where our products are manufactured. As at the Latest Practicable Date, 25 out of the total 41 patents we have applied for were in the PRC. Our patents in the US and EU primarily serve to protect our intellectual properties against infringement by others as these are the primary markets that we target for the sales of our products. Hence, we consider that patent registration for our design and technologies in Hong Kong is not necessary in order to protect us against intellectual properties infringement by others, as our products are not manufactured, nor primarily target to be sold in the Hong Kong market. While any patent applications are ultimately subject to approval by the relevant government agencies, we have not encountered any difficulties or delays in obtaining such government approvals that we consider uncommon based on our experience. If we are unsuccessful in obtaining such approvals, we will not enjoy the protection provided by a patent in the relevant jurisdiction in respect of the relevant technology. Consequently, others may legally utilize our designs and technologies without our permission, which may adversely affect demand for our products and hence our results of operations. Further details of our intellectual property rights are set out in Appendix VI to this prospectus. Our filed patents cover designs such as digital multimedia jukebox, multimedia devices with enhanced functionality, various types of MP3 players and MP3 mini-HiFi system, digital photo frame, exercise device, earpiece sensor and method of determining biometric parameters and distance travelled during exercise, fitness MP3 players, apparatus and method of controlling media player with pedometer apparatus and method of adjusting the accuracy of three-axis accelerometer.

LEGAL PROCEEDINGS

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

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Share Offer, the Controlling Shareholders will together control the exercise of voting rights of approximately 32.4% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised). Save and except for their respective interests in our Company and its subsidiaries, none of the Controlling Shareholders nor any of their respective associates had interests in any other companies as at the Latest Practicable Date which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganization; or (ii) may, directly or indirectly, compete with our Group's business.

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders has entered into the Deed of Non-competition in favor of our Company, pursuant to which each of the Controlling Shareholders undertakes and covenants with our Company (for itself and as trustee of our subsidiaries) that, for so long as the Controlling Shareholders and/or their respective associates, directly or indirectly, whether individually or taken together, remain the Controlling Shareholders of our Company, he will not and will procure his respective associates not to directly or indirectly (whether as an investor, shareholder, partner, agent or otherwise or whether for profit, reward or otherwise) engage or otherwise be interested in any business which is or may be in competition with the business of any members of our Group (the "**Restricted Business**") from time to time.

Such non-competition undertaking does not apply to:

(i) the holding of shares or other securities issued by our Company or any of our subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognized stock exchange and the aggregate interest of the Controlling Shareholders and their respective associates (as "interest" is construed in accordance with the provisions contained in Part XV of the SFO) do not amount to more than 5% of the relevant share capital of the company in question;

(iii) the contracts and other agreements entered into between members of our Group and the associates of the Controlling Shareholders; and

(iv) the involvement or participation of the Controlling Shareholders in a Restricted Business in relation to which our Company has agreed in writing to such involvement or participation, following a decision by the independent non-executive Directors to allow such involvement or participation subject to any conditions the independent non-executive Directors may require to be imposed.

The Deed of Non-competition will cease to have effect upon the earliest of the date on which (i) our Company becomes wholly-owned by the Controlling Shareholders and/or their respective associates (whether individually or collectively); or (ii) the securities of our Company cease to be listed on the Stock Exchange or any other stock exchange recognized under the SFO.

DIRECTORS

Each of our Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their service agreements, our executive Directors shall not at any time during his or her term of service with our Group and for a period of 12 months after the expiry or termination of his or her employment with our Company, without the prior written consent of our Board, be or become a director of any company (other than our Company or any other member of our Group) which competes with or is a competitor of our Group or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation which competes with or is a competitor of our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

- our independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by the Controlling Shareholders under the Deed of Non-competition;

- the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;

- our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company; and

- the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters set described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Share Offer.

Management Independence

Our Board comprises three executive Directors, one non-executive Director and four independent non-executive Directors. Two of our executive Directors, Dr. Lau and Prof. Tsui, and our non-executive Director, Prof. Cheng, are also our Controlling Shareholders.

Save as disclosed above, no other Controlling Shareholders holds any directorship in our Company.

Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

During the Track Record Period, JL Limited, a company wholly owned by Ms. Loh, a Controlling Shareholder, provided consultancy services to our Group and advised members of our management on corporate strategies and financial planning and we therefore paid service fees to JL Limited. Since April 2009, JL Limited ceased to provide such consultancy services to our Group as part of our cost reduction measures and for the purpose of enabling Ms. Loh to devote more time in the development of her other businesses not related to the business of our Group.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Share Offer.

Operational Independence

We have established our own set of organizational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs.

Historically, some of our bank borrowings were secured by mortgages over certain properties situated in Hong Kong owned by JL Limited, a company wholly owned by Ms. Loh, a Controlling Shareholder and pledge of certain investments owned by Dr. Lau, the spouse of Ms. Loh. We have already obtained written confirmation from our banks for the release of such asset pledges upon the Listing, subject to the conditions that, among other things, the provision of alternative securities in favor of the banks by our Group such as credit insurance policies, corporate guarantees and charges on deposits by our Group.

In addition, certain personal guarantees were provided by Dr. Lau, Mr. Heung, Lap Chi Eugene and Mr. Paulo Lam, either severally or jointly and severally, to secure our bank borrowings. We have already obtained written confirmation from our banks for the release of such personal guarantees upon the Listing, subject to the conditions that, among other things, (i) certain indebtedness being repaid upon Listing, (ii) the provision of alternative securities in favor of the banks by our Group such as credit insurance policies, corporate guarantees and charges on deposits by our Group, and (iii) that the bank received satisfactory evidence that the consolidated net asset value of our Group shall be not less than a certain amount.

As at 30 June 2009, we had outstanding loans from JL Limited, a company wholly owned by our Controlling Shareholder Ms. Loh, the principal and accrued interest of which amounted to HK$23.6 million. JL Limited did not extend any additional loans to our Group after 30 June 2009. As at the time of the Listing, there will be no outstanding loans from JL Limited to our Group, since HK$15 million of such loans had been used to set-off against an amount due from Dr. Lau, HK$3,873 of such loans had been capitalized, HK$6.6 million of such loans had been repaid and HK$0.4 million of such loans will be repaid with proceeds from our bank borrowings before the Listing. In addition, JL Limited agreed to bear HK$1.6 million of the listing cost incurred in connection with the Listing. Our Company has agreed to pay such amount on behalf of JL Limited, and thereby offset against the remaining outstanding loans from JL Limited to our Group.

As at 30 June 2009, we had outstanding loans from 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, the principal and accured interest of which amounted to HK$11.7 million. Mr. Heung, Lap Chi Eugene did not extend any additional loans to our Group after 30 June 2009. As at the time of the Listing, there will be no outstanding loans from Mr. Heung, Lap Chi Eugene to our Group, since HK$3,703 of such loan had been capitalized and HK$5 million balance of such loans will be repaid with proceeds from our bank borrowings before the Listing. In addition, UGH agreed to bear HK$6.7 million of the listing cost incurred in connection with the Listing. Our Company has agreed to pay such amount on behalf of UGH, and thereby offset against the remaining outstanding loans from Mr. Heung, Lap Chi Eugene to our Group, as agreed by Mr. Heung, Lap Chi Eugene.

Having considered the above factors, our Directors consider that there is no financial dependence on our Controlling Shareholders.

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth information regarding members of the Board:

Name	Age	Position
Dr. Jack Lau	42	Chairman, Chief Executive Officer and Executive Director
Prof. Tsui Chi Ying	49	Executive Director
Mr. Chui, Shing Yip Jeff	51	Executive Director
Prof. Cheng, Roger Shu Kwan	44	non-executive Director
Prof. Chu Ching Wu, Paul	69	independent non-executive Director
Dr. Lam Lee Kiu-yue, Alice Piera	69	independent non-executive Director
Mr. Shu Wa Tung, Laurence	37	independent non-executive Director
Dr. Wu Po Him, Philip	63	independent non-executive Director

Executive Directors

Dr. Jack Lau, aged 42, is one of the founders of our Group. He is the Chairman and Chief Executive Officer of our Company. He was appointed as an Executive Director on 11 September 2009. In addition, he is currently an Adjunct Associate Professor at the HKUST. He received his Bachelor's and Master's degrees from the University of California, Berkeley in Electrical Engineering and Computer Sciences. He obtained his Ph.D. degree from HKUST in Electrical and Electronic Engineering and became the first Doctoral graduate of HKUST. Dr. Lau filed his first patent in the US at the age of 24. After obtaining his Ph.D., Dr. Lau pursued his research interest at Stanford University from 1995 to 1996 and returned to HKUST in 1996. He was subsequently granted tenure and was promoted to Associate Professor. Dr. Lau had previously worked at a number of technology firms in the Silicon Valley. Dr. Lau currently holds more than 10 registered patents. Furthermore, Dr. Lau has published at various leading IEEE journals and conferences. Dr. Lau has received numerous awards. In 2000, Dr. Lau was awarded 十大傑出青年 (Top Ten Outstanding Young Person) by Hong Kong Junior Chamber. In 2005, he was awarded the 香港青年工業家獎 (Young Industrialist Award of Hong Kong) by the Hong Kong Young Industrialists Council. In 2009, Dr. Lau was awarded 世界傑出青年華商 (World Outstanding Young Chinese Entrepreneur) by the World Federation of Chinese Entrepreneurs Organization, and Ernst & Young Entrepreneur Of The Year China by Ernst & Young.

Prof. Tsui Chi Ying, aged 49, was one of the founders of our Group and was appointed as an Executive Director on 18 September 2009. He received his Bachelor's degree in Electrical Engineering from the University of Hong Kong in 1982 and Doctorate degree in Computer Engineering from the University of Southern California in 1994. He joined the Department of Electrical and Electronic Engineering, HKUST in 1994 and is currently an Associate Professor in the department. Prof. Tsui has received various awards including Best Paper awards from IEEE Transactions on VLSI Systems, IEEE International

Symposium on Circuits and Systems and IEEE International Symposium on Low Power Electronics and Design. He has served on the editor board of Integration, the International VLSI Journal. He has also served on the technical program committees of many international conferences and symposiums, including Design Automation Conference, International Symposium on Low Power Electronics and Design, Asia and South Pacific Design Automation Conference and the IEEE, VLSI Symposium. He is the holder of 6 registered patents in the US.

Mr. Chui, Shing Yip Jeff, aged 51, joined our Group in July 2007 as the Director of Corporate Planning, and was appointed as an Executive Director of PD (BVI) in August 2007. He was appointed as an Executive Director of our Company on 18 September 2009. Prior to joining our Group, Mr. Chui worked at IBM from 1982 to 2007, in multiple disciplinary areas including software development, service delivery, sales and marketing in information technology industry. Mr. Chui was IBM's Linux Business Leader for Hong Kong and Asia Pacific before he joined our Group. Leveraging on his rich management experience from IBM, Mr. Chui has taken the lead in transforming our Company into a structured enterprise class company, with efficient and standardized processes. Under his leadership, our Company obtained the ISO 9001/14001 certification in 2008. Mr. Chui obtained his Bachelor's degree in Science from the University of Toronto in 1979.

Non-executive Director

Prof. Cheng, Roger Shu Kwan, aged 44, is one of the founders of our Group. He was appointed as a non-executive Director of our Company on 18 September 2009. Prof. Cheng is currently a Professor in the Department of Electronic and Computer Engineering of HKUST. He was an Assistant Professor in the Electrical and Computer Engineering Department of University of Colorado at Boulder from 1991 to 1995, before he joined HKUST in June 1995. Prof. Cheng received his Bachelor's degree in Science from Drexel University, Philadelphia, Pennsylvania, in 1987, and his Ph.D. degree from Princeton University, Princeton, New Jersey, in 1991, both in Electrical Engineering. Prof. Cheng is currently an Editor for the IEEE Transactions and Wireless Communications and had served as Associate Editor for the IEEE Transactions on Communications, Guest Editor of the special issue on Multimedia Network Radios in the IEEE Journal on selected areas in Communications, Associate Editor of the IEEE Transaction on Signal Processing, and the membership chair for the IEEE Information Theory Society. Prof. Cheng also held visiting positions and had also served as a consultant for industrial projects sponsored by various communication system and IC companies in Hong Kong, US and China. His current research interests are in wireless communications and networks including multi-user cooperative communications, MIMO, OFDM, resource allocations, digital implementation of communication systems, information theory, and coding.

Independent non-executive Directors

Prof. Chu Ching Wu, Paul, aged 69, was appointed as an independent non-executive Director of our Company on 18 September 2009. Professor Chu was the President of the HKUST from July 2001 to August 2009. He is also the Executive Director of Texas Center for Superconductivity and the T. L. L. Temple Chair of Science at the University of Houston. In 2007, he was appointed as a Member of the US President's Committee on the National Medal of Science, responsible for the selection of recipients for this top scientific honor in the US. Professor Chu had conducted industrial research at Bell Laboratories at Murray Hill, New Jersey before he held academic positions at Cleveland State University and the University of Houston. In 1990, he was selected as the Best Researcher in the US by the US News and World Report. He received his Bachelor of Science degree from Cheng-Kung University in Taiwan in 1962, a Master of Science degree from Fordham University, New York in 1965, and a Ph.D. degree from the University of California, San Diego in 1968.

Dr. Lam Lee Kiu-yue, Alice Piera, aged 69, was appointed as an independent non-executive Director of our Company on 18 September 2009. Dr. Lam has over 18 years of experience in banking and finance. Dr. Lam joined Hang Seng Bank Limited in 1978 and was appointed as a Director in 1989. She was the Director and General Manager of Hang Seng Bank Limited from 1990 to 1993, and was appointed as the Deputy Chief Executive in October 1993. From April 1994 to March 1996, Dr. Lam was the Managing Director and Deputy Chief Executive of Hang Seng Bank Limited (stock code: 00011). From 1999 to 2007, Dr. Lam worked as the Chairman of the University Grants Committee. She was an independent non-executive Director of iMerchants Limited (stock code: 08009) from March 2000 to July 2005 and the Vice-Chairman of the Chinese University of Hong Kong from 1997 to 1998. She graduated from the University of Hong Kong in 1963 with a Bachelor of Arts degree. She attended the Solicitors' Professional Course and attained a Solicitors' Practising Certificate in 1978. In 1992, Dr. Lam was awarded an honorary Doctor of Laws degree by the Chinese University of Hong Kong. In 2003, Dr. Lam was honoured awarded the Gold Bauhinia Star by the Hong Kong government in recognition of her service to the Hong Kong community.

Mr. Shu Wa Tung, Laurence, aged 37, was appointed as an independent non-executive Director of our Company on 18 September 2009. Mr. Shu is currently an independent non-executive Director and serves on the audit committee of Greater China Holdings Limited (Stock Code: 00431). Mr. Shu graduated from Deakin University in Australia with a Bachelor Degree in Business majoring in Accounting in September 1994. Mr. Shu is a Certified Public Accountant of the HKICPA and a Certified Practising Accountant of CPA Australia. He has over 13 years of experience in audit, corporate finance and corporate advisory services. Mr. Shu worked in Deloitte Touche Tohmatsu since March 1994, and was a Manager of the Reorganisation Services Group when he left Deloitte Touche Tohmatsu in October 2000. Mr. Shu was subsequently employed by ICEA Capital Limited as a Manager in the Equity Capital Market of the Corporate Finance Division from November 2000 to 4 June 2001, responsible for the daily management of listing application projects and advising on merger and acquisition cases. He then worked in Deloitte & Touche Corporate Finance Limited (a service company of Deloitte Touche Tohmatsu) as a Manager from July 2001 to November 2002. From November 2002 to April

2005, Mr. Shu held the position of Associate Director in Goldbond Capital (Asia) Limited. He served as the Chief Financial Officer and the Company Secretary of Texhong Textile Group Limited (Stock Code: 02678) for the period from May 2005 to July 2008 overseeing the company's financial management function.

Dr. Wu Po Him, Philip, aged 63, was appointed as an independent non-executive Director of our Company on 18 September 2009. He is currently a non-executive Director of Wing Lung Bank Ltd. He joined Wing Lung Bank Ltd. in 1975. He served as an Executive Director of Wing Lung Bank Ltd. since 1982 and as the Chief Executive of Wing Lung Bank Ltd. since 2005 until his retirement in 2008. During his tenure as an Executive Director of Wing Lung Bank Ltd., he was also director of all major subsidiaries of Wing Lung Bank Ltd. and some joint venture companies in which Wing Lung Bank Ltd. co-invested with other banks, including but not limited to, Joint Electronic Teller Services Limited, Bank Consortium Holding Limited, BC Reinsurance Limited and Hong Kong Life Insurance Limited. Currently he is a director of Wu Jieh Yee Company Limited and the Hong Kong Academy For Gifted Education Limited. He was the Chairman of the Committee on Museums from November 2004 to January 2007 and is currently an Adjunct Professor in the Faculty of Business Administration of The Chinese University of Hong Kong. Dr. Wu graduated from The University of Hong Kong with a Bachelor of Arts degree in November 1968. He obtained his Master of Business Administration degree in September 1970 from the California State University and his Doctor of Philosophy degree in economics in December 1974 from the University of Oklahoma. In December 1999, Dr. Wu was conferred an honorary degree of Doctor of Business Administration by The Open University of Hong Kong in recognition of his contribution to adult education and finance. In 2005, Dr. Wu was awarded the Bronze Bauhinia Star by the Hong Kong government in recognition of his service to the Hong Kong community.

Our independent non-executive Directors provide advice to us on compliance, corporate governance, development and business strategies.

Save as disclosed above, there are no other matters concerning all our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Mr. Cheng Lap Hing, Martin, aged 41, our Assistant Director of project management, joined our Group in September 2001 as a Product Engineering Manager. He was promoted to his current position in February 2009. Prior to joining our Group, Mr. Cheng was an Engineering Design Manager from March 1999 to September 2001 at Vtech Communications Limited, responsible for production support, customer support and new product development. Prior to that, he was a Manager of R&D, responsible for setting up a research and development department in the PRC, from April 1997 to March 1999 at Surface Mount Technology International Limited, where he started his career in April 1991. Mr. Cheng graduated from the Hong Kong Polytechnic University in November 1991 with a Higher Diploma in Electronic Engineering, from the University of London in 1999 with a Bachelor of Science (Hons) degree in Computing and Information System, and from the Open University of Hong Kong in 2008 with a Bachelor of Science (Hons) degree in Electronics.

Mr. Choi Koon Yin, Felix, aged 34, is our Assistant Director (Research and Development). Mr. Choi joined our Group in August 1999 as an engineer and he is one of the founding staff. He was responsible for software research and development. The software products include embedded device, desktop program and internal web-based system. During the past 10 years, he was the Software Architect on various projects, including some of our largest customers. He also directed the product failure analysis and worked with the team on continuous improvements. His effort was recognized and promoted to Assistant Director (Research and Development) in 2008. Mr. Choi graduated from HKUST with a Bachelor's degree in Computer Engineering in 1997. He continued his studies upon graduation in Electrical and Electronic Engineering at HKUST, and obtained his Master of Philosophy degree in 2000.

Mr. Ho Sai Hung, Francis, aged 45, is our Industrial Design Manager. Mr. Ho graduated from the Hong Kong Polytechnic University in 1989 with a Bachelor of Arts degree in Industrial Design. Mr. Ho has worked for Wah Ming Optical Manufacturing Limited as a designer from November 1989 to October 1990, and for Team Concepts Electronics Limited between April 1991 and June 1992 and was responsible for concept creation and product design. Mr. Ho served as a Free Lance Industrial Designer in Jetton Industrial Limited from June 1992 to April 1993, and had worked for Group Sense Limited during the period between May 1993 to October 1995, and from April 1996 to May 1998 was responsible for idea generation, product design and design project development. Before joining our Group in October 2004, Mr. Ho was the Design Manager of Ewig Industries Co., Ltd between May 1999 and November 1999. Mr. Ho then joined Artek Electrical Applicances Company Limited as a Product Designer from May 2001 to March 2002. Mr. Ho has over 15 years' experience of concept creation, product design and design management in consumer electronics industry.

Mr. Kow Ping, aged 40, is our Vice President of Strategic Accounts. After graduating with a Bachelor of Applied Science degree in Computer Technology from Nanyang Technological University (Singapore) in 1993, he has worked in various companies on both sides of the Pacific. Prior to joining our Group in July 2006 as the Vice President of Strategic Accounts, Mr. Kow was the Country Manager of Cornice Inc. supporting Cornice Inc.'s customers in China, Hong Kong and South East Asia who build consumer electronic devices with embedded hard disk drives. Before that, in March 2000, he had co-founded WebPro Limited in Hong Kong with venture funds managed by Walden Investments. Mr. Kow had earlier worked in the US for various companies such as VIA-Cyrix Corporation (which later became part of National Semicoductor Corporation) from June 1997 to January 2000, where he was the Marketing Manager responsible for the world wide marketing for x86 processors and also at the Texas Instruments Taiwan Limited from June 1993 to June 1997, where he handled strategic marketing responsible for the marketing of products such as x86 processors and wireless communications products. Given his accomplishments and work ethics, Mr. Kow was seconded to the US organization of Texas Instruments as an expatriate, managing a variety of major business and marketing program involving the sales and marketing of 486 CPU microprocessors to the Asia market place from May 1996 to June 1997.

Mr. Lai Sai Kit, Dennis, aged 34, is our Assistant Director of project development division. Mr. Lai graduated from the HKUST with a Bachelor's degree in Electronic Engineering in 1997, and obtained his Master of Philosophy degree in Electrical and Electronic Engineering from HKUST in 1999. Mr. Lai had worked as our Specialist of Digital Signal Processing Engineering from October 1999 to March 2003. From April 2003 to June 2004, Mr. Lai had worked as a project leader for a listed company in Japan, TEAC Audio Co. Ltd. Mr. Lai rejoined our Group as our Design Service Manager in December 2004. Mr. Lai has over 10 years of experience in technical development, technical management and project management. Mr. Lai has assisted in the development of the US patents "Method of automatically selecting multimedia files for transfer between two storage mediums," and "Digital multimedia jukebox". Mr. Lai was awarded a Chapter Award in an IEEE conference of wireless technology, VTC2000-Spring.

Mr. Lam Fui Yee, aged 56, is our Financial Controller. He joined our Group in December 2007 as our Financial Controller. Before joining our Group, he was the Chief Financial Officer (China) of Grande Group (Hong Kong) Limited (Stock code: 00186). Mr. Lam had worked in several multinational companies such as Motorola Semiconductors Hong Kong Limited, PepsiCo Inc., Linx Asia Limited and Amoco Chemical Asia Pacific Limited in accounting and finance positions for over 15 years. Mr. Lam has over 25 years' experience in corporate accounting and financial management. Mr. Lam graduated from the Chinese University of Hong Kong in 1980 with a Bachelor of Business Administration degree and from the HKUST with a Master of Business Administration degree in November 1996. He has been an associate member of the HKICPA since April 1996, and a fellow member of the Association of Chartered Certified Accountants since November 2000.

Mr. Lee Rabi, aged 36, is our Finance Director and is responsible for supervising the corporate finance exercises of our Group. He joined our Group as our Senior Manager of the Corporate Finance Department in December 2008. He graduated from City University of Hong Kong with a Bachelor's degree in Accountancy in November 1997 and has been a member of the HKICPA since January 2001. Prior to joining our Group, he worked in Ernst & Young from September 1997 to November 2008 where he acquired auditing experience in various industries, including property development, marine transportation and manufacturing. He was a Senior Manager when he left Ernst & Young in November 2008.

Mr. Leung Yuk Hang, aged 35, was appointed as our Assistant Director in February 2009. He oversees our MRP/SAP system which facilitate our supply chain management. Prior to becoming Assistant Director, Mr. Leung was our Operation Manager who oversaw our entire mainland China operation between April 2006 and February 2008. In that role, he directed work on the significant expansion of our mainland China operation and our business process optimization for our ISO 9001 and ISO 14001 certification. Mr. Leung served as our Project Manager before April 2006 and was responsible for compiling the project management methodology of the company. Mr. Leung graduated from HKUST in 2000 with a Master of Philosophy degree in Electrical and Electronic Engineering. He was conferred with the Project Management Professional (PMP) certification in 2005.

Mr. Ng Kin Ping, Anvil, aged 34, is our Assistant Director. He is responsible for technical development and project management. Mr. Ng joined our Group in August 1999 as an Engineer and he is one of our founding staff. Mr. Ng started his career on system design, and focused on project management in later stage. He was promoted to Senior Project Manager in September 2006 and led the work on technical, project management. Under his leadership, our Company optimized the work flow for project management flow. With over 10 years of experience in project management, Mr. Ng helped our Group develop a number of new products for our major customers. His effort was recognized and was promoted to the position of Assistant Director in February 2009. Mr. Ng graduated from HKUST with a Bachelor's degree in Electronic Engineering in 1997. He continued to study at HKUST upon graduation and obtained his Master of Philosophy degree in Electrical and Electronic Engineering in 1999.

Mr. Gilad Simhony, aged 42, has been serving as the Vice President of Sales for our Group since September 2004. Mr. Simhony graduated from the Bar-Ilan University in Israel in 1993 with a Bachelor's degree in Law, and is a member of the Bar Association of the Israeli Bar since November 1994. Mr. Simhony founded Webdiving Ltd, a high-tech start up company, in 1998. He later worked for Comverse Technology, Inc. (NASDAQ: CMTV), which pioneered the network based voice mail and other added value services such as network based entrainment applications, from October 2001 to February 2003 as a Senior Director in charge of sales and business development for the Voice CD group. Mr. Simhony worked for M-Systems Flash Disk Pioneers Ltd. (NASDAQ: FLSH), which pioneered the USB flash drive and other flash based memory innovations, between March 2003 to October 2004 as a Vice President of sales for the SmartCaps unit. Mr. Simhony has over 12 years of experience in sales and senior management positions in the dynamic "high-tech" industry; including his tenure at the abovementioned NASDAQ listed companies.

Mr. Tao Hong Ming, aged 42, is our Senior Vice President and is responsible for sales and marketing, project management and operation. Mr. Tao graduated from the Hong Kong Polytechnic University in 1990 with a Bachelor's degree in Electronic Engineering. He was with our Group from July 2001 to March 2007 before he left to join Shenzhen Sangfei Consumer Communications Co., Ltd. as Director of Business Line Management in August 2007. He later rejoined our Group in June 2008, responsible for Mobile Phone business management. He previously worked as a Business Development Manager at VTech Communications Limited responsible for business development and project management of contract manufacturing business. Mr. Tao has over 18 years of working experience in engineering, sales and marketing, project management and operation in electronics business.

Mr. Wong Siu Pang, Ben, aged 41, is our Business Development Director. Mr. Wong is responsible for exploring new market opportunities and customers for our Group. Prior to joining our Group in August 2008 as our Business Development Director, Mr. Wong had over 18 years of experience in sales and marketing in the field of electronic components and products. He worked for Toshiba Electronics Asia Ltd. as Assistant Manager between July 1990 and April 1996, and for Zilog Asia Ltd. as District Sales Manager between April 1997 and March 2001, responsible for the sales and marketing of electronic components. Mr. Wong joined Zi Corporation (H.K.) Limited as a Business Manager-Bluetooth. He was the Vice President of Sunlink International Group between March 2003 and July 2006, and was responsible for the business unit of multimedia product development and sales. Mr. Wong was then employed by Taiyo Technology (H.K.) Limited as a Vice President from September 2006 to November 2007. He obtained his Bachelor of Science degree in Electronics from the Chinese University of Hong Kong in 1990 and his Master of Science degree in Electronic Engineering from the Hong Kong Polytechnic University in 1995.

Mr. Wong Kin Chun, Steven, aged 55, is our Operation Director. He joined our Group in October 2008 as our Senior Purchasing Manager. Mr. Wong has over 20 years of experience in manufacturing operations, business and product development and has strong implementation knowledge in logistics and supply chain management. He is experienced in developing and implementing material requirements planning ("**MRP**") system. Prior to joining our group, Mr. Wong worked at Binatone Electronics International Limited, a company engaged in the research, production and marketing of innovative design and manufacturing of communication devices, as the Manufacturing Director from September 1998 to August 2007. Prior to that he served as a Manager in the EDP, Materials and Strategic Business Development departments, at S. Megga Telecommunications Limited, a manufacturer of telecommunication products from April 1988 to September 1995. Mr. Wong graduated from York University in June 1986 with a bachelor's degree in arts.

Ms. Wong Yin Mei, Venus, aged 31, our Assistant Director – Marketing, is responsible for sales and marketing activities, customer service and product development. She joined our Group in November 2005 as Project Marketing Manager. Ms. Wong has about 10 years of working experience in both technical marketing and management in the electronics industry. Before joining our Group, Ms. Wong was a marketing assistant in JD Rising Company. She was subsequently employed by Beijing Design & Creation (Hong Kong) Co. Ltd. in May 2002, responsible for technical marketing, IP licensing, design service and business development. She was the Marketing Manager when she left Beijing Design & Creation (Hong Kong) Company Limited. Ms. Wong graduated from The University of Hong Kong with a Bachelor Degree in Management Studies and from HKUST with a Master of Science in Engineering Enterprise Management.

COMPANY SECRETARY

Ms. Wong Yuk Hing Juliana, aged 37, was appointed as the Company Secretary of our Company in September 2009. Ms. Wong is a solicitor of the High Court of Hong Kong. She is currently a solicitor at Messrs. Philip K.H. Wong, Kennedy Y.H. Wong & Co., Solicitors & Notaries, with her practice focusing on corporate and commercial, including company secretarial and compliance work for companies listed in Hong Kong and Shanghai, mergers and acquisitions, corporate finance and other business transactions. Prior to joining the legal profession, Ms. Wong had experience in the media and entertainment industry, including working at the in-house legal department of a listed company, and acquired extensive knowledge in handling financing, production, distribution and licensing contracts and copyright matters. In addition to her qualification in law, Ms. Wong holds a Bachelor's degree in Political Science from the University of California, Berkeley and a Master of Business Administration degree from The Chinese University of Hong Kong.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses in relation to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for the provision of services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

OUR GROUP'S RELATIONSHIP WITH STAFF

We recognize the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We continue to provide training to our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

HUMAN RESOURCES

As at the Latest Practicable Date, we had approximately 238 employees, including a total of 82 permanent employees located in Hong Kong and 156 employees in Shenzhen, the PRC. We have an internship program with HKUST and as such, from time to time, we hire HKUST students, usually in our research and development department, as interns for a few months' time. As at the Latest Practicable Date, we did not have any intern staffs. The following table shows a breakdown of our employees by function as at the Latest Practicable Date:

Functions	**Hong Kong**	**Shenzhen**
Management	4	0
Finance and administration	8	10
Sales and marketing	12	5
Research and development	44	60
Production engineering	0	30
Industrial and packaging design	4	5
Purchasing and logistic management	6	29
Quality assurance	1	14
Information technology and other support	3	3
Subtotal	82	156
Total		238

We consider our highly skilled and experienced employees to be a key factor in our business success. Our future success will be dependent on our ability to attract, retain and motivate highly skilled and experienced management and engineering personnel. During the Track Record Period, we have not experienced any significant difficulties in recruiting our employees, and have not experienced any significant staff turnover or labor disputes. We believe that our employee relations are satisfactory in general. We believe that our management policies, working environment, career prospects and benefits extended to our employees have contributed to building a good employee relations and employee retention. We provide on-the-job training for our employees to equip them with the skills and knowledge relevant to their work. We have also implemented programs to recognize employees' efforts to further their studies in electronic engineering, computer engineering or related disciplines.

We also participate in the mandatory provident fund as required under the relevant Hong Kong laws and regulations, as well as the PRC government-sponsored social security system as required under the relevant PRC laws and regulations. The social security system in the PRC includes retirement, work injury, medical care, unemployment and other insurance coverage for our employees. In addition, we also maintain medical and work related insurance schemes for our employees in Hong Kong and the PRC.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee pursuant to a resolution of our Directors passed on 27 November 2009 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of our Company. At present, the audit committee of our Company consists of three members who are Dr. Lam Lee Kiu-yue, Alice Piera, Mr. Shu Wa Tung, Laurence, and Dr. Wu Po Him, Philip. Mr. Shu Wa Tung, Laurence is the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee on 27 November 2009 with written terms of reference in compliance with paragraph B1.1 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; and ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Dr. Lam Lee Kiu-yue, Alice Piera, Mr. Shu Wa Tung, Laurence, and Dr. Wu Po Him, Philip. Dr. Wu Po Him, Philip is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on 27 November 2009. Written terms of reference in compliance with paragraph A4.4 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules have been adopted. The primary function of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board. The nomination committee consists of three members, comprising Dr. Lam Lee Kiu-yue, Alice Piera, Mr. Shu Wa Tung, Laurence, and Dr. Wu Po Him, Philip. The chairman of the nomination committee is Dr. Lam Lee Kiu-yue, Alice Piera.

COMPLIANCE ADVISOR

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company will appoint Quam Capital Limited to be the compliance advisor, who will have access to our Company's authorized representatives, Directors and other officers at all times. The compliance advisor will advise our Company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after the listing of our Company. The material terms of the compliance advisor's agreement entered into between our Company and the compliance advisor are as follows:

(i) the compliance advisor's appointment for a period commencing on the date of listing of the Shares and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of the Listing, i.e. 31 December 2011, or until the agreement is terminated, whichever is earlier;

(ii) the compliance advisor shall provide our Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines;

(iii) our Company agrees to indemnify the compliance advisor against all actions, claims and proceedings from time to time made against, and all losses and damage suffered and all payments, costs, expenses and legal fees made or incurred by the compliance advisor arising out of or in connection with any willful default, fraud or gross negligence on the part of our Company in its performance of the agreement, provided that this indemnity shall not apply to any action or loss which is finally judicially determined to have been caused by, or to the extent of, the willful default, fraud or gross negligence on the part of the compliance advisor;

(iv) our Company shall have the right, without compensation to terminate the appointment of the compliance advisor under the agreement only if the compliance advisor's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty (30) days) over fees payable by our Company to the compliance advisor as permitted by Rule 6A.26 of the GEM Listing Rules. The compliance advisor shall have the right to resign or terminate its appointment as a compliance advisor under the agreement at any time without compensation being payable to our Company by giving not less than thirty (30) days written notice to our Company.

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following the Share Offer and the Capitalization Issue will be as follows:

Authorized share capital:		*HK$*
2,000,000,000	Shares	200,000,000

Issued and to be issued, full paid or credited as fully paid upon completion of the Share Offer and the Capitalization Issue:

(Shares)		*HK$*	*Approximate percentage of issued share capital (%)*
131,977	Shares in issue as at the date of this prospectus	13,197.7	0.02
449,868,023	Shares to be issued under the Capitalization Issue	44,986,802.3	74.98
150,000,000	Shares to be issued under the Share Offer	15,000,000.0	25.00
600,000,000	Total	60,000,000.0	100.00

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Share Offer and the Capitalization Issue will be as follows:

Authorized share capital:		*HK$*
2,000,000,000	Shares	200,000,000

Issued and to be issued, full paid or credited as fully paid upon completion of the Share Offer and the Capitalization Issue:

(Shares)		*HK$*	*Approximate percentage of issued share capital (%)*
131,977	Shares in issue as at the date of this prospectus	13,197.7	0.02
449,868,023	Shares to be issued under the Capitalization Issue	44,986,802.3	72.27
172,500,000	Shares to be issued under the Share Offer	17,250,000.0	27.71
622,500,000	Total	62,250,000.0	100.00

Note: The Shares referred to in the above tables have been or will be fully paid or credited as fully paid when issued.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the "minimum prescribed percentage" of 25% of the total issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalization Issue but before any exercise of the Over-allotment Option; and

(ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

(i) the conclusion of our Company's next annual general meeting; or

(ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such number of Shares with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue or immediately following completion of the Share Offer and the Capitalization Issue but before the exercise of the Over-allotment Option.

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out under the paragraph headed "Repurchase by our Company of our own securities" in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

(i) the conclusion of our Company's next annual general meeting; or

(ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(iii) time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Our Directors confirm that, immediately following the completion of the Share Offer but without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme, the following persons/entities will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Swanland	Beneficial owner	125,592,340	20.9%
Masteray	Interest in a controlled corporation [(1)]	125,592,340	20.9%
	Beneficial owner	53,828,697	9.0%
Ms. Loh	Interest in a controlled corporation [(2)]	179,421,037	29.9%
Dr. Lau	Interest of spouse [(3)]	179,421,037	29.9%
UGH	Beneficial owner	140,482,433	23.4%
Ms. Leung, Yee Li Lana	Interest in a controlled corporation [(4)]	140,482,433	23.4%
Mr. Heung, Lap Chi Eugene	Interest of spouse [(5)]	140,482,433	23.4%
Notable Success	Beneficial owner	54,196,943	9.0%
Successful Link Limited	Interest in a controlled corporation [(6)]	54,196,943	9.0%
Mr. Paulo Lam	Interest in a controlled corporation [(6)]	54,196,943	9.0%

Notes:

(1) Masteray is interested in 51% of the issued share capital of Swanland and hence is deemed to be interested in all the Shares held by Swanland.

(2) Ms. Loh is the sole beneficial owner of Masteray and hence is deemed to be interested in all the Shares held by Masteray.

(3) Dr. Lau is the spouse of Ms. Loh and is therefore deemed to be interested in all the Shares held by Ms. Loh by virtue of the SFO.

(4) Ms. Leung, Yee Li Lana is the sole beneficial owner of UGH and hence is deemed to be interested in all the Shares held by UGH.

(5) Mr. Heung, Lap Chi Eugene is the spouse of Ms. Leung, Yee Li Lana and is therefore deemed to be interested in all the Shares held by Ms. Leung, Yee Li Lana by virtue of the SFO.

(6) Notable Success is wholly owned by Successful Link Limited, which is in turn wholly owned by Mr. Paulo Lam. Therefore, Successful Link Limited is deemed to be interested in all the Shares held by Notable Success and Mr. Paulo Lam is deemed to be interested in all the Shares held by Successful Link Limited through Notable Success.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Share Offer and the Capitalization Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

MANAGEMENT SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer (but without taking into account of any Shares which may be alloted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme), the following persons individually and/or collectively are entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of our Company and are able, as a practical matter, to direct or influence the management of our Company and are therefore regarded as Management Shareholders under the GEM Listing Rules:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Swanland [(1)]	Beneficial owner	125,592,340	20.9%
Masteray [(1)]	Interest in a controlled corporation [(2)]	125,592,340	20.9%
	Beneficial owner	53,828,697	9.0%
Ms. Loh [(1)]	Interest in a controlled corporation [(3)]	179,421,037	29.9%
Dr. Lau [(1)]	Interest of spouse [(4)]	179,421,037	29.9%
Excel Direct [(1)]	Beneficial owner	11,903,210	2.0%

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Prof. Tsui (1)	Interest in a controlled corporation (5)	11,903,210	2.0%
Ms. Cheung, Wai Hing, Barbara (1)	Interest in a controlled corporation (5)	11,903,210	2.0%
Glory Wood Limited	Beneficial owner	16,666,540	2.8%
Mr. Chui, Shing Yip Jeff	Interest in a controlled corporation (6)	16,666,540	2.8%
Rochdale (1)	Beneficial owner	2,976,655	0.5%
Prof. Cheng (1)	Interest in a controlled corporation (7)	2,976,655	0.5%
Ms. Le Cheng (1)	Interest in a controlled corporation (7)	2,976,655	0.5%

Notes:

(1) As a controlling shareholder, each of Excel Direct, Masteray, Rochdale, Swanland, Dr. Lau, Ms. Loh, Prof. Cheng, Ms. Le Cheng, Prof. Tsui and Ms. Cheung, Wai Hing, Barbara is deemed to be a management shareholder under the GEM Listing Rules.

(2) Masteray is interested in 51% of the issued share capital of Swanland and hence is deemed to be interested in all the Shares held by Swanland.

(3) Ms. Loh is the sole beneficial owner of Masteray and hence is deemed to be interested in all the Shares held by Masteray.

(4) Dr. Lau is the spouse of Ms. Loh and is therefore deemed to be interested in all the Shares held by Ms. Loh by virtue of the SFO.

(5) Excel Direct is held as to 50% by Prof. Tsui and as to 50% by Ms. Cheung, Wai Hing, Barbara. Therefore each of Prof. Tsui and Ms. Cheung, Wai Hing, Barbara is deemed to be interested in all the Shares held by Excel Direct.

(6) Mr Chui, Shing Yip Jeff is the sole beneficial owner of Glory Wood Limited and hence is deemed to be interested in all the Shares held by Glory Wood Limited.

(7) Rochdale is held as to 50% by Prof. Cheng and as to 50% by Ms. Le Cheng. Therefore each of Prof. Cheng and Ms. Le Cheng is deemed to be interested in all the Shares held by Rochdale.

SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, save for the persons disclosed under the paragraphs headed "Substantial Shareholders" and "Management Shareholders" in this section above, the following persons individually and/or collectively will immediately following completion of the Share Offer (but without taking into account of any Shares which may be alloted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme) be directly or indirectly interested in 5% or more of the voting power at the general meetings of our Company and are therefore regarded as significant shareholders of our Company under the GEM Listing Rules.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Notable Success	Beneficial owner	54,196,943	9.0%
Successful Link Limited	Interest in a controlled corporation (1)	54,196,943	9.0%
Mr. Paulo Lam	Interest in a controlled corporation (1)	54,196,943	9.0%

Note:

(1) Notable Success is wholly owned by Successful Link Limited, which is in turn wholly owned by Mr. Paulo Lam. Therefore, Successful Link Limited is deemed to be interested all the Shares held by Notable Success and Mr. Paulo Lam is deemed to be interested in all the Shares held by Successful Link Limited through Notable Success.

UNDERTAKINGS

Each of our Company, the Controlling Shareholders and certain Shareholders has given certain undertakings in respect of our Shares to our Company, the Sponsor, the Lead Manager and the Underwriters, details of which are set out under the paragraph headed "Undertakings" in the section headed "Underwriting" in this prospectus.

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 prospectus. 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 prospectus 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 prospectus.

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 prospectus 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 orders 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
	2007		2008		30 June 2009
	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 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.

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 prospectus.

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
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$'000* (unaudited)	%	*HK$'000*	%
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$'000* (unaudited)	*HK$'000*
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$'000* (unaudited)	*HK$'000*
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, 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 and for the purpose of enabling Ms. Loh to devote more time in the development of her other businesses not related to the business of our Group.

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 Listing, 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 prospectus, 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 materials 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	10,864
	126,256	104,135	90,390	87,189
Non-current				
Loan from a shareholder	526	526	526	526

Approximately HK$38 million of our Group's bank borrowings will be repaid by net proceeds of the Share offer upon the Listing, 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 prospectus, 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;

(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$5 million;

(iv) the pledge of the Group's certain deposits in an amount of not less than HK$6 million; and

(v) the pledge of cash deposits and/or investments 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 investments 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 during the Track Record Period, a deed of undertaking was entered, whereby (a) JL Limited undertook 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) undertook not to declare or distribute any dividends of more than 50% of its profit (if any) for each financial year. Such undertaking is no longer required pursuant to the latest banking facilities letter issued by the relevant bank in October 2009.

The pledges of deposits of and/or certain properties and/or investments owned by Dr. Lau, JL Limited, Mr. Heung, Lap Chi Eugene or Increasing Grace Limited, and all personal, joint and several, or corporate guarantees given by Dr. Lau, Mr. Heung, Lap Chi Eugene and Increasing Grace Limited for our Group's banking facilities will be released or replaced by corporate guarantees provided by our Company upon the Listing of our Company's Shares on the GEM, conditional upon, among other things, (i) certain indebtedness being repaid upon the Listing, (ii) the provision of alternative securities in favor of the relevant banks by our Group such as credit insurance policies, corporate guarantees and charges on deposits by our Group, and (iii) that the relevant bank received satisfactory evidence that the consolidated net asset value of our Group shall be not less than a certain amount.

The loans from related parties are unsecured, bore interest at the Hong Kong dollar prime lending 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 and a loan from Mr. Heung, Lap Chi Eugene.

The loan from a shareholder is unsecured, bore interest at the Hong Kong dollar prime lending 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 prospectus, 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 millionand 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 2007	2008	Six months ended 30 June 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	13,574
Due to a director	8,753	–	–	–
Loan from a related party	26,165	27,615	31,980	10,864
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 prospectus, 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$13.6 million, loan from a related party of HK$10.9 million, interest-bearing bank borrowings of HK$76.3 million and tax payable of HK$4.5 million. At the time of the Listing, all Loans from a Shareholder and Related Parties had been repaid and/or capitalized, while all personal, corporate 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 Share Offer 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 Share Offer.

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 Listing having considered, among other things, the following:

(a) the net proceeds from the Share Offer;

(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 net proceeds of the Share Offer towards repaying bank borrowings; (ii) repay and/or capitalize the entire amounts due to related parties/shareholder in full before the Listing; 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 2007	2008	As at/for the six months ended 30 June 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 net proceeds of the Share Offer, we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

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.

PROFIT FORECAST

Our Directors believe that, in the absence of unforeseen circumstances and based on the assumptions as set out in the section headed "Profit forecast" in Appendix III to this prospectus, our profit after tax for the year ending 31 December 2009 is unlikely to be less than HK$25 million. On the basis of the prospective financial information and the weighted average number of Shares expected to be issued and outstanding during the current year of 600,000,000 Shares (assuming the Over-allotment Option is not exercised), the forecast earnings per Share on a weighted average basis for the year ending 31 December 2009 is unlikely to be less than HK4.17 cents.

The substantial increase in the forecast profits after tax for the year ending 31 December 2009 when compared with that for the year ended 31 December 2008 is mainly attributable to the expected decrease in the research and development costs charged to the income statement as a result of the increase in capitalization of the research and development costs and the expected decrease in other operating expenses following the implementation of certain cost control measures in the first half of 2009. In addition, JL Limited and UGH agreed to bear HK$1.6 million and HK$6.7 million of the listing cost

incurred in connection with the Listing respectively. Our Company has agreed to pay such amount on behalf of JL Limited and UGH, and thereby offset against the remaining outstanding loans from JL Limited and Mr. Heung, Lap Chi Eugene (the spouse of Ms. Leung, Yee Li Lana, who is the sole shareholder of UGH) to our Group.

The texts of letters from our reporting accountants, and from the Sponsor in respect of the profit forecast are set out in the section headed "Profit forecast" in Appendix III to this prospectus.

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 prospectus.

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 prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Share Offer on our net liabilities as at 30 June 2009 as if they had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of our Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net liabilities had the Share Offer been completed as at 30 June 2009 or at any future date.

The unaudited pro forma adjusted combined net tangible assets are calculated based on our audited combined net liabilities attributable to equity holders of our Company as at 30 June 2009, as shown in the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus, and is adjusted as described below.

	Combined net tangible liabilities of our Group attributable to equity holders of our Company as at 30 June 2009	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets of our Group**	**Unaudited pro forma adjusted combined net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK cents*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on an Offer Price of HK$0.73 per Share	(38,564)	89,906	51,342	8.6
Based on an Offer Price of HK$0.67 per Share	(38,564)	81,176	42,612	7.1

Notes:

(1) The combined net liabilities of our Group as at 30 June 2009 have excluded the deferred development costs of approximately HK$6,316,000 from the combined net liabilities attributable to the equity holders of our Company amounting to HK$32,248,000, both are extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer of 150,000,000 new Shares are based on the Offer Price of HK$0.73 and HK$0.67 per Share, after deduction of the underwriting fees and other related expenses. No account has been taken of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Share Offer payable to us as described in Note (2) and on the basis that a total of 600,000,000 Shares were in issue (including Shares in issue as at the date of this prospectus, those Shares to be issued under the Capitalization Issue and those Shares to be issued pursuant to the Share Offer). No account has been taken of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

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 prospectus, 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.

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed "Our strategies and business objectives" in the section headed "Business" in this prospectus for a detailed description of our business objectives and strategies.

IMPLEMENTATION PLAN

For the period from the Latest Practicable Date to 31 December 2009:

Product and technology development	Broadening our market coverage and expansion of our sales network	Enhancing our research and development capability
Develop daily logging system and information sharing platform, "HeartPal online", on Facebook for "Live-Lite" series products	Continue discussions with major consumer electronics and fitness equipment OEM in relation to co-branding and/or co-marketing of the "Live-Lite" series	
Continue developing open source-based multimedia Internet devices		

Amount to be invested from the net proceeds:

Nil	Nil	Nil

For the period from 1 January 2010 to 30 June 2010:

Product and technology development	**Broadening our market coverage and expansion of our sales network**	**Enhancing our research and development capability**
Enhance and introduce additional features on the "Live-Lite" series products, such as lower power consumption, enhanced G-sensor algorithm and GPS functions	Commence sale of products in the PRC	Continue hiring additional research and development staffs
Commence development of algorithm for new applications under the "Live-Lite" series which cater for other sports such as cycling, rowing and swimming	Commence the establishment of the domestic sales channel in the PRC	
Enhancements of the Web 2.0 base applications such as social networking support functions	Participate in trade fairs and exhibitions in Hong Kong and overseas	
Launch of open source-based multimedia Internet devices	Continue discussions with major consumer electronics and fitness equipment OEM in relation to co-branding and/or co-marketing of the "Live-Lite" series	
	Continue discussions with fitness institutions, sports and healthcare associations in relation to a possible alliance	

Amount to be invested from the net proceeds:

HK$3 million	HK$3 million	HK$3 million

For the period from 1 July 2010 to 31 December 2010:

Product and technology development	**Broadening our market coverage and expansion of our sales network**	**Enhancing our research and development capability**
Continue enhancing and introducing new features on the “Live-Lite” series products such as Bluetooth and WiFi connectivity and new user interface	Continue the development of the domestic sales channel in the PRC	Continue hiring additional research and development staffs
Continue development of algorithm for new applications under the “Live-Lite” series which cater for other sports such as cycling, rowing and swimming	Participate in trade fairs and exhibitions in Hong Kong and overseas	
Continue development of new features and applications on the open source-based multimedia Internet devices, such as multi-touch panel, enhanced LCD monitor, camera functions, 3.5G and/or 4G connectivity	Continue discussions with major consumer electronics and fitness equipment OEM in relation to co-branding and/or co-marketing of the “Live-Lite” series	
Continue development of other open source-based consumer electronics, including but not limited to digital mobile televisions	Continue discussions with fitness institutions, sports and healthcare associations in relation to a possible alliance series	

Amount to be invested from the net proceeds:

HK$3 million	HK$3 million	HK$2 million

For the period from 1 January 2011 to 30 June 2011:

Product and technology development	Broadening our market coverage and expansion of our sales network	Enhancing our research and development capability
Continue enhancing and introducing new features on the "Live-Lite" series products such as fat analyzer, glucose and blood pressure measurement	Continue the development of the domestic sales channel in the PRC	Continue hiring additional research and development staffs
Continue development of algorithm for new applications under the "Live-Lite" series which cater for other sports such as cycling, rowing and swimming	Participate in trade fairs and exhibitions in Hong Kong and overseas	
Explore usage of the "Live-Lite" series technologies in other areas	Continue discussions with major consumer electronics and fitness equipment OEM in relation to co-branding and/or co-marketing of the "Live-Lite" series	
Continue development of new features and applications on the open source-based multimedia Internet devices	Continue discussions with fitness institutions, sports and healthcare associations in relation to a possible alliance series	
Continue development of other open source-based consumer electronic devices		

Amount to be invested from the net proceeds:

HK$3 million	HK$3 million	HK$2 million

For the period from 1 July 2011 to 31 December 2011:

Product and technology development	**Broadening our market coverage and expansion of our sales network**	**Enhancing our research and development capability**
Continue enhancing and introducing new features on the "Live-Lite" series products	Continue the development of the domestic sales channel in the PRC	Continue hiring additional research and development staffs
Continue development of algorithm for new applications under the "Live-Lite" series	Participate in trade fairs and exhibitions in Hong Kong and overseas	
Explore usage of "Live-Lite" series technologies in other areas	Continue discussions with major consumer electronics and fitness equipment OEM in relation to co-branding and/or co-marketing of the "Live-Lite" series	
Continue development of new features and applications on the open source-based multimedia Internet devices	Continue discussions with fitness institutions, sports and healthcare associations in relation to a possible alliance series	
Continue development of other open source-based consumer electronic devices	Develop new sales channel for health care, heart condition and elderly monitoring	

Amount to be invested from the net proceeds:

HK$3 million	HK$2.5 million	HK$2 million

BASES AND ASSUMPTIONS

The business objectives set out by the Directors are based on the following bases and assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in the PRC, Hong Kong or any part of the world that will adversely affect the business of our Group;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term business objectives described in this prospectus from the amount as estimated by the Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no change in the effectiveness of the licenses and permits obtained by our Group; and
- our Group will not be materially affected by the risk factors as set out under the section headed "Risk factors" in this prospectus.

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto, are estimated to be approximately HK$85.5 million, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range of HK$0.67 to HK$0.73 per Share. We intend to use such net proceeds as follows:

- Approximately HK$12 million towards product and technology development which include, among others, conducting research and development projects focusing on enhancing the features of and innovating advanced technologies for the "Live-Lite" series products and open source-based multimedia Internet devices;

- Approximately HK$11.5 million towards broadening market coverage and expansion of our sales network in particular, for the "Live-Lite" series products and the PRC market;
- Approximately HK$9 million towards enhancing our research and development capability through expansion of the Group's research and development team;
- Approximately HK$7 million towards possible mergers and acquisitions opportunities where no target had been identified and no definitive agreement had been entered into as at the Latest Practicable Date;
- Approximately HK$38 million towards repaying the bank borrowings (which are currently applied as our working capital and repayment of shareholders' loan) with annual interest rates ranging from 5.0% to 6.5% and maturing in 2010; and
- Approximately HK$8 million towards working capital and other general corporate purposes.

If the Offer Price is set at the high-end or low-end of the proposed offer price range, the net proceeds of the Share Offer (assuming that the Over-allotment Option is not exercised) will increase or decrease by approximately HK$4.4 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, the net proceeds from the Share Offer will increase by approximately HK$15.3 million, assuming an Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Share Offer (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK$0.7 million, respectively. We intend to increase or decrease the allocation of net proceeds to working capital and other general corporate purposes.

To the extent that the net proceeds of the Share Offer are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

BOOKRUNNER AND LEAD MANAGER
Quam Securities Company Limited

PUBLIC OFFER UNDERWRITERS
Quam Securities Company Limited
TSC Capital Limited
OSK Securities Hong Kong Limited
Newpont Securities Limited
Po Kay Securities & Shares Company Limited
YF Securities Company Limited
Goldin Equities Limited
Convoy Investment Services Limited

PLACING UNDERWRITERS
Quam Securities Company Limited
TSC Capital Limited
OSK Securities Hong Kong Limited
Newpont Securities Limited
Po Kay Securities & Shares Company Limited
YF Securities Company Limited
Goldin Equities Limited
Convoy Investment Services Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is initially offering for subscription of 15,000,000 Shares at the Offer Price under the Public Offer, subject to the terms and conditions set forth in this prospectus and the related Application Forms, and 135,000,000 Shares at the Offer Price under the Placing. The Public Offer Underwriters have agreed, severally but not jointly, subject to the terms and conditions in the Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares. The Placing Underwriters have agreed, severally but not jointly, subject to the terms and conditions in the Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Placing Shares.

In addition, our Company has granted the Over-allotment Option to the Placing Underwriters. The Over-allotment Option is exercisable by the Lead Manager (for itself and on behalf of the Placing Underwriters), at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging the applications under the Public Offer, which is expected to be on 8 January 2010, subject to the terms of the Underwriting Agreement. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 22,500,000 additional Shares, representing 15% of the Shares initially available under the Share Offer, at the Offer Price on the same terms as those applicable to the Placing, to cover over-allocations in the Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement.

The Underwriting Agreement is subject to various conditions, which include, but without limitation, (i) the Listing Division granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and (ii) the agreement of the Offer Price being entered into on the Price Determination Date.

Grounds for termination

The obligations of the Underwriters to subscribe for, or procure subscribers for, the Offer Shares are subject to termination. The Underwriters shall be entitled to terminate their obligations under the Underwriting Agreement upon the occurrence of any of the following events by notice in writing to our Company given by the Lead Manager (for itself and on behalf of the Underwriters) at any time prior to 8:00 a.m. on the Listing Date (the "**Termination Time**") if prior to the Termination Time,

(a) there comes to the notice of the Lead Manager or any of the Underwriters:

(i) any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement or any other provisions of the Underwriting Agreement by any party thereto other than the Underwriters which, in any such cases, is considered, in the sole opinion of the Lead Manager, to be material in the context of the Share Offer; or

(ii) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect; or

(iii) any event, series of events, matters or circumstances occurs or arises on or after the date of the Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Underwriting Agreement, would have rendered any of the representations, warranties or undertakings contained in the Underwriting Agreement untrue, incorrect or misleading in any material respect, and which is considered, in the sole opinion of the Lead Manager, to be material in the context of the Share Offer; or

(iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole opinion of the Lead Manager, a material omission in the context of the Share Offer; or

(v) any event, act or omission which gives or is likely to give rise to any liability of our Company and any of our executive Directors and the covenantors under the Underwriting Agreement arising out of or in connection with the breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement; or

(vi) any breach by any party to the Underwriting Agreement other than the Underwriters of any provision of the Underwriting Agreement which, in the sole opinion of the Lead Manager, is material; or

(b) there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the US, BVI, the Cayman Islands, Hong Kong, the PRC or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group which is material to the conditions, business affairs, profits, losses or the financial or trading position of any member of our Group or otherwise material in the context of the Share Offer; or

(ii) any change in, or any event or series of events or development resulting or likely to result in any change in local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

(iii) any change in the conditions of Hong Kong, the PRC, the US or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a prospective change in all forms of taxation or exchange control (or the implementation of any exchange control) in BVI, the Cayman Islands, Hong Kong, the PRC or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to the business of our Group; or

(vi) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US, the European Union (or any member thereof) or any of the jurisdictions in which our Group conducts business on Hong Kong or the PRC which is material to the conditions, business affairs, profits, losses or the financial or trading position of any member of our Group or otherwise material in the context of the Share Offer; or

(vii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(viii) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out,

which, in the sole opinion of the Lead Manager:

(a) is or will be, or is very likely to be adverse, in any material respect, to the business, financial or other condition or prospects of our Group; or

(b) has or will have or is very likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, the distribution of the Offer Shares or the demand or the market price of our Shares following the Listing; or

(c) for any other reason makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Share Offer as a whole.

For the above purpose:

(a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or a devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

(b) any normal fluctuations in the Hong Kong, the PRC, the US or international equity securities or other financial markets shall not be construed as events or series of events affecting market conditions referred to above.

Commission and expenses

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Offer Shares in accordance with the terms of the Underwriting Agreement, out of which the Underwriters may pay any sub-underwriting commission in connection with the Share Offer. The Sponsor will also receive a documentation fee. The aggregate fees, together with the underwriting commission, listing fees, legal and other professional fees, printing, translation and other fees and expenses relating to the Share Offer, are estimated to be approximately HK$19.5 million (assuming the Over-allotment Option is not exercised and based on the Offer Price of HK$0.70 per Offer Share, being the mid-point of the indicative range of the Offer Price between HK$0.67 and HK$0.73), which will be payable by us. We will also pay for the expenses in connection with any exercise of the Over-allotment Option or over-allocations under the Placing.

JL Limited and UGH agreed to bear HK$1.6 million and HK$6.7 million of the listing cost incurred in connection with the Listing respectively. Our Company has agreed to pay such amount on behalf of JL Limited and UGH, and thereby offset against the remaining outstanding loans from JL Limited and Mr. Heung, Lap Chi Eugene (the spouse of Ms. Leung, Yee Li Lana, who is the sole shareholder of UGH) to our Group.

Undertakings

Pursuant to the Underwriting Agreement, each of our Controlling Shareholders, Glory Wood Limited and Mr. Chui, Shing Yip Jeff has undertaken to and covenanted with our Company, the Sponsor, the Lead Manager and the Underwriters that he/she/it shall not and shall procure that the relevant registered holder(s) of the Shares shall not:

(a) save as provided in Rule 13.18 of the GEM Listing Rules, in the period commencing on the date of this prospectus and ending on the date which is 6 months from the Listing Date (the "**First Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (the "**Relevant Securities**");

(b) save as provided in Rule 13.18 of the GEM Listing Rules, during the six-month period commencing on the expiry date of the First Six-Months Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders taken together, would cease to be the Controlling Shareholders of our Company;

(c) in the event of any such sale, transfer or disposal of the Relevant Securities or any such interest referred to in paragraphs (a) and (b) above, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares.

Pursuant to the Underwriting Agreement, each of our Controlling Shareholders, Glory Wood Limited and Mr. Chui, Shing Yip Jeff has also undertaken to and covenanted with our Company, the Sponsor, the Lead Manager and the Underwriters that during the relevant periods specified in paragraphs (a) and (b) above:

(i) if and when he/she/it or the registered owner pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must immediately inform our Company, the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters) in writing of such pledge and charge, the number of the Relevant Securities so being pledged or charged and other details as required by Rule 17.43(1) to (4) of the GEM Listing Rules; and

(ii) having pledged or charged any interest in the Relevant Securities, if and when he/she/it becomes aware that any pledge or chargee thereof has disposed of or intends to dispose of such interest in the Relevant Securities, immediately inform our Company in writing of such disposal or such intention of disposal and the number of the Relevant Securities affected.

In addition, each of UGH, Ms. Leung, Yee Li Lana, Notable Success, Successful Link Limited and Mr. Paulo Lam has undertaken to and covenanted with our Company, the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters) that in the period commencing on the date of this prospectus and ending on the date which is 180 days from the Listing Date, he/she/it shall not, and shall procure that the relevant registered holder(s) of the Shares shall not, save as pursuant to a pledge or charge in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner.

Our Company has irrevocably and unconditionally undertaken to the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters), and each of our Controlling Shareholders, Glory Wood Limited and Mr. Chui, Shing Yip Jeff has also irrevocably and unconditionally undertaken to the Sponsor and the Lead Manager (for itself and on behalf of the Underwriters) to procure our Company, that, without the prior written consent of the Lead Manager (for itself and on behalf of all the Underwriters) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Shares to be issued under the Capitalization Issue, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme or any capitalization issue, capital reduction or consolidation or sub-division of Shares, neither our Company nor any of our subsidiaries from time to time shall:

(a) allot and issue or agree to allot and issue any share in our Company or any of our subsidiaries from time to time or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise acquire any securities of our Company or any of our subsidiaries from time to time during the First Six-Month Period;

(b) issue any Share or securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for Shares or securities in our Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares during the six-month period commencing on the expiry date of the First Six-Month Period so as to result in our Controlling Shareholders taken together ceasing to be the Controlling Shareholders of our Company or our Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of our Group; or

(c) during the First Six-Month Period purchase any Share or securities of our Company.

SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sponsor will receive a documentation fee. The Lead Manager and the other Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and expenses" in this section above.

We will appoint, before the Listing Date, the Sponsor as our compliance advisor pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the year ending 31 December 2011.

Save as disclosed above, none of the Sponsor, the Lead Manager and the Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Share Offer.

THE STRUCTURE OF THE SHARE OFFER

The Share Offer consists of the Placing and the Public Offer.

An aggregate of 15,000,000 Shares have been initially allocated to the Public Offer for subscription, subject to re-allocation as mentioned below and under the GEM Listing Rules. An aggregate of 135,000,000 Shares are initially offered under the Placing for subscription, subject to re-allocation as mentioned below and under the GEM Listing Rules and the Over-allotment Option. Investors are free to select to apply for the Public Offer Shares or the Placing Shares, but they may only receive Shares under the Public Offer **OR** the Placing but not both. Our Directors and the Lead Manager will take all reasonable steps to identify any multiple applications under the Public Offer and the Placing which are not allowed and are bound to be rejected.

In order to facilitate settlement of the over-allocations in the Placing and for the purpose of stabilization of the market price of the Share (if any), the Lead Manager and the Share Lender have entered into the Stock Borrowing Agreement pursuant to which the Share Lender will, if so requested by the Lead Manager and subject to the terms of the Stock Borrowing Agreement, make available to the Lead Manager up to 22,500,000 Shares held by it to facilitate settlement of over-allocations in the Placing.

The stock borrowing arrangements under the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 13.16A(1)(a) of the GEM Listing Rules and on the following terms:

- such stock borrowing arrangements will only be effected by the Lead Manager for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option or similar right;

- the maximum number of Shares borrowed from the Share Lender will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;

- the same number of Shares borrowed is returned to the Share Lender within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;

- the arrangements under the Stock Borrowing Agreement will be effected in compliance with all the applicable laws, rules and regulatory requirements; and

- no payments will be made to the Share Lender by the Lead Manager or any of the Underwriters in relation to the stock borrowing arrangements.

PRICE PAYABLE UPON APPLICATION FOR THE PUBLIC OFFER SHARES

Investors of the Public Offer Shares will be required to pay the maximum indicative Offer Price of HK$0.73 plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% transaction levy imposed by the SFC amounting to a total of HK$3,686.83 for each board lot of 5,000 Shares. If the final Offer Price is less than the maximum indicative Offer Price, arrangements will be made to refund any excess amount to the investors, **WITHOUT INTEREST**.

CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Public Offer Shares will be conditional upon:

- the GEM Listing Committee granting the listing of, and permission to deal in, on GEM, our Shares in issue, the Offer Shares and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme;

- the agreement on the Offer Price between our Company and the Lead Manager (for itself and on behalf of the Underwriters) being entered into on the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of a waiver of any condition(s)) and not being terminated in accordance with the terms and conditions of the Underwriting Agreement),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If any of the above conditions has not been fulfilled or waived prior to the time(s) and date(s) specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by our Company on the GEM website at www.hkgem.com and our Company's website at www.perceptiondigital.com the next day following such lapse. In such event, all application money will be refunded, **WITHOUT INTEREST**. The terms on which the application money will be refunded are set forth under "Refund of your application money" on the Application Forms. In the meantime, all application money received from the Public Offer will be held in a separate bank account (or separate bank accounts).

THE PUBLIC OFFER

Our Company is initially offering 15,000,000 Shares under the Public Offer, at the Offer Price, representing 10% of the initial number of the Offer Shares, for subscription by way of a public offer in Hong Kong, subject to the re-allocation as mentioned below. The Public Offer is lead managed by the Lead Manager and is fully underwritten by the

Public Offer Underwriters (subject to our Company and the Lead Manager agreeing to the final Offer Price). Applicants for the Public Offer Shares are required to pay on application the maximum indicative Offer Price of HK$0.73 per Offer Share plus 1% brokerage, 0.004% transaction levy imposed by the SFC and 0.005% Stock Exchange trading fee.

The Public Offer is open to all members of the public in Hong Kong. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he or she or it has not taken up and will not indicate an interest to take up any Placing Shares nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated under the paragraph headed "Conditions of the Share Offer" above.

If the Public Offer is not fully subscribed for, the Lead Manager (for itself and on behalf of the Public Offer Underwriters) has the authority to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing, in such number as it deems appropriate to satisfy demand under the Placing. The total number of the Public Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below.

Basis of allocation of the Public Offer Shares

For allocation purpose only, the number of the Public Offer Shares (after taking into account any re-allocation referred to below) will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the aggregate value of HK$5 million (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) or less. The Public Offer Shares available in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the aggregate value of more than HK$5 million (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) and up to the total initial value of pool B. Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the unsubscribed Public Offer Shares will be transferred to satisfy the demand in the other pool and be allocated accordingly.

Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of Public Offer Shares initially available under pool A or pool B is bound to be rejected.

THE PLACING

Our Company is initially offering 135,000,000 Shares at the final Offer Price, representing 90% of the initial number of the Offer Shares, for subscription by way of the Placing, subject to re-allocation as mentioned below and under the GEM Listing Rules and the Over-allotment Option.

Investors subscribing for the Placing Shares are also required to pay 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% transaction levy imposed by the SFC. All decisions concerning the allocation of the Placing Shares to prospective placees pursuant to the Placing will be made on the basis of, and by reference to, a number of factors including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is expected or likely to buy further Shares, or hold or sell our Shares, after the Listing Date. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base for the benefit of our Company. In addition, our Company and the Lead Manager will use their best endeavours to observe the minimum public float requirement under the GEM Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

In connection with the Placing, our Company has granted the Over-allotment Option to the Placing Underwriters. The Over-allotment Option is exercisable by the Lead Manager (for itself and on behalf of the Placing Underwriters) at any time from the Listing Date up to (and including) the 30th day after the last day for lodging applications under the Public Offer, which is expected to be 8 January 2010 subject to the terms of the Underwriting Agreement. Pursuant to the Over-allotment Option, our Company may be required to allot and issue, at the final Offer Price, up to an additional 22,500,000 Shares, representing 15% of the initial number of the Offer Shares, to cover over-allocations in the Placing. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.71% of our Company's enlarged issued share capital following completion of the Share Offer. In the event that the Over-allotment Option is exercised, in full or in part, an announcement will be made by our Company.

The total number of the Placing Shares to be allotted and issued may change as a result of re-allocation mentioned below and any re-allocation of the unsubscribed Public Offer Shares to the Placing as mentioned under the paragraph headed "The Public Offer" in this section.

THE CORNERSTONE PLACING

As part of the Placing, our Company and the Lead Manager have entered into a corporate investor agreement with Kingbo Investment Limited for the subscription by Kingbo Investment Limited of the maximum number of our Shares that may be purchased with HK$18,000,000 at the Offer Price (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), but subject to a maximum of such number of our Shares which shall represent 4.9% (equivalent to 29.4 million Shares) of the enlarged total issued share capital of our Company upon the Listing, rounded down to the nearest board lot of our Shares. Details of the corporate investor agreement and Kingbo Investment Limited are set out in the section headed "Cornerstone investor" in this prospectus.

RE-ALLOCATION BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to adjustment on the following basis:

(a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 45,000,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer;

(b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 60,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer; and

(c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the initial number of the Public Offer Shares, then the number of Shares to be re-allocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 75,000,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer.

In each such case, the additional Shares re-allocated to the Public Offer will be allocated equally between pool A and pool B and the number of the Placing Shares will be correspondingly reduced. Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Tuesday, 15 December 2009.

STABILIZATION IN HONG KONG

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may purchase newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the initial offering price.

In connection with the Share Offer, the Lead Manager, as stabilizing manager (the "**Stabilizing Manager**") or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws and regulations, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail at any time from the Listing Date up to (and including) the 30th day after the last day for the lodging of applications under the Public Offer, which is expected to be on 8 January 2010 (the "Stabilizing Period"). This stabilizing activity may include the exercise of the Over-allotment Option or market purchase of our Shares in the secondary market or selling our Shares to liquidate a position held as a result of the purchase. Any such market purchase will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity which, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager. Such stabilizing activity may be discontinued at any time, and is required to be brought to an end on the expiration of the Stabilizing Period.

The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued upon the exercise of the Over-allotment Option, being 22,500,000 Shares, representing 15% of the number of the Offer Shares being initially available under the Share Offer. The stabilization price will not exceed the Offer Price or other pricing limits stipulated by the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). As a result of effecting transactions to stabilize or maintain the market price of our Shares, the Stabilizing Manager or any person acting for it may maintain a long position in our Shares. The size of the long position and the period for which the Stabilizing Manager or any person acting for it will maintain the long position is at the absolute discretion of the Stabilizing Manager. In the event that the Stabilizing Manager or any person acting for it liquidates this long position, it may have an adverse impact on the market prices of our Shares.

Stabilizing action by the Stabilizing Manager or any person acting for it is not permitted to support the price of our Shares for longer than the Stabilizing Period. On and after the expiration of the Stabilizing Period, the demand for our Shares, and the market price may fall.

Any stabilizing action taken by the Stabilizing Manager or any person acting for it may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the Stabilizing Period.

Stabilization is allowed for initial public offering transactions the total value of the relevant securities offered thereunder at the offer price is not less than HK$100 million and is an offer to members of the public in Hong Kong the subject matter of a prospectus (as defined in the Companies Ordinance) and the securities offered are uniform in all respects with the securities for the time being traded or admitted to trading on a recognized stock exchange (as defined in the SFO) or by means of relevant authorized trading services.

LISTING DATE

Assuming that the Share Offer becomes unconditional, it is expected that dealings in our Shares on the GEM will commence at 9:30 a.m. (Hong Kong time) on Wednesday, 16 December 2009.

THE CORPORATE PLACING

Our Company and the Lead Manager have entered into a corporate investor agreement (the "**Cornerstone Investor Agreement**") with Kingbo Investment Limited (the "**Cornerstone Investor**") who has agreed to subscribe for the maximum number of our Shares that may be purchased with HK$18,000,000 at the Offer Price (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), but subject to a maximum of such number of our Shares which shall represent 4.9% (equivalent to 29.4 million Shares) of the enlarged total issued share capital of our Company upon the Listing, rounded down to the nearest board lot of our Shares (the "**Corporate Placing**").

Based on the Offer Price of HK$0.70 per Share, being the mid-point of the proposed Offer Price range of HK$0.67 to HK$0.73 per Share, and assuming the Over-allotment Option is not exercised, the Shares to be subscribed by the Cornerstone Investor will be 25,710,000 Shares, representing approximately 4.29% of the total issued share capital of our Company immediately after completion of the Share Offer and approximately 17.14% of the total Offer Shares initially available under the Share Offer.

The Corporate Placing forms part of the Placing. The Cornerstone Investor will not subscribe for any Offer Shares under the Share Offer, other than pursuant to the Cornerstone Investor Agreement. The Offer Shares to be subscribed by the Cornerstone Investor will rank pari passu in all respects with the fully paid Shares in issue and will be counted towards the public float of the Company. Immediately following the completion of the Share Offer, the Cornerstone Investor will not have representation on the Board, nor will it become a substantial shareholder of our Company. The Offer Shares to be subscribed by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the Placing and the Public Offer in the event of over-subscription under the Public Offer as described under the paragraph headed "Re-allocation between the Placing and the Public Offer" in the section headed "Structure of the Share Offer" in this prospectus.

INFORMATION ON THE CORNERSTONE INVESTOR

The Cornerstone Investor is a private company incorporated in the British Virgin Islands and is an indirect wholly-owned subsidiary of Shau Kee Financial Enterprises Limited which in turn is wholly-owned by Lee Financial (Cayman) Limited of which Dr. the Honourable Lee Shau Kee, GBM is a substantial shareholder.

The Cornerstone Investor and its ultimate beneficial owners are Independent Third Parties.

CONDITIONS PRECEDENT

The Corporate Placing is conditional upon (i) the Underwriting Agreement having been entered into and having become unconditional by no later than the times and dates specified therein; (ii) the Offer Price having been agreed upon between the Company and the Lead Manager (for itself and on behalf of the Underwriters); (iii) the Underwriting Agreement not having been terminated; (iv) the GEM Listing Committee having granted the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer; and (v) no statute, rule or regulation shall have been enacted or promulgated by any governmental authority of any relevant jurisdiction which prohibits the consummation of the investment in the Shares by the Cornerstone Investor and there shall be no order or injunction of a court of competent and relevant jurisdiction in effect precluding or prohibiting consummation of the investment in the Shares by the Cornerstone Investor.

RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTOR

The Cornerstone Investor agreed that without the prior written consent of the Company and the Lead Manager, it shall not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of any of the Shares acquired by the Corporate Investor pursuant to the Cornerstone Investor Agreement and any shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalization issue or other form of capital reorganization (the "**Relevant Shares**") or any interest in any company or entity holding any of the Relevant Shares.

The Cornerstone Investor agrees that, after the Lock-up Period, the Cornerstone Investor shall be free to dispose of any Relevant Shares, provided that (i) the Cornerstone Investor shall use all reasonable endeavors to ensure that any such disposal is strictly in accordance with all applicable laws and regulations including the GEM Listing Rules and the SFO and does not create a disorderly or false market in the Shares; and (ii) the Cornerstone Investor shall not knowingly dispose of any Shares to another person who engages directly or indirectly in a business which competes with the business of our Company, or to another entity which is a holding company, subsidiary or fellow subsidiary of such person, without the prior written consent of our Company and the Lead Manager. The Cornerstone Investor further agrees that, save with the prior written consent of our Company and the Lead Manager, the aggregate holding (direct and indirect) of the Cornerstone Investor and its associates in the total issued share capital of our Company shall be less than 10% of our Company's entire issued share capital from time to time during the Lock-up Period.

The above restrictions shall not apply to transfers of all or part of the Relevant Shares from the Cornerstone Investor to any wholly-owned subsidiary of the Cornerstone Investor or any holding company of the Cornerstone Investor (the "**Cornerstone Investor Affiliate**") during the Lock-up Period. The Cornerstone Investor Affiliate will be subject to the restrictions on disposal imposed on the Cornerstone Investor pursuant to the Cornerstone Investor Agreement. If at any time prior to expiration of the Lock-up Period, the Cornerstone Investor Affiliate ceases to be a wholly-owned subsidiary of the Cornerstone Investor or of any holding company of the Cornerstone Investor, it shall transfer the Relevant Shares to the Cornerstone Investor or another wholly-owned subsidiary of the Cornerstone Investor or of any holding company of the Cornerstone Investor, which undertakes to strictly abide by the restrictions on disposal imposed on the Cornerstone Investor pursuant to the Cornerstone Investor Agreement.

WHICH APPLICATION FORM TO USE

Use **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

Use **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS

You can collect **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 4 December 2009 until 12:00 noon on Wednesday, 9 December 2009 from:

Quam Capital Limited
Room 3208, Gloucester Tower,
The Landmark
11 Pedder Street
Central
Hong Kong

Quam Securities Company Limited
Room 3208, Gloucester Tower,
The Landmark
11 Pedder Street
Central
Hong Kong

TSC Capital Limited
Room 2803, 28/F
Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

OSK Securities Hong Kong Limited
12/F., World-Wide House
19 Des Voeux Road Central
Central
Hong Kong

Newpont Securities Limited
8/F., Queen's Road Centre
152 Queen's Road Central
Hong Kong

Po Kay Securities & Shares Company Limited
14/F., Grand Building
15-18 Connaught Road Central
Hong Kong

YF Securities Company Limited
11/F., CMA Building
64-66 Connaught Road Central
Central
Hong Kong

Goldin Equities Limited
20th Floor, York House, The Landmark
15 Queen's Road Central
Hong Kong

Convoy Investment Services Limited
34/F., One Island East
18 Westlands Road
Quarry Bay
Hong Kong

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

District	Branch name	Address
Hong Kong Island:	Des Voeux Road Branch	Standard Chartered Bank Building, 4–4A, Des Voeux Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F, Lee Wing Building, No. 156–162 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay

District	Branch name	Address
Kowloon:	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
	Monkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
	Yaumatei Branch	G/F–1/F, Ming Fong Bldg., 564 Nathan Road, Yaumatei
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	City One Shatin Branch	Shop 30–33, G/F, Ngan Shing Comm. Centre, City One Shatin

You can collect **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 4 December 2009 until 12:00 noon on Wednesday, 9 December 2009 from the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong or your stockbrokers may also have the Application Forms and this prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned to you (or the first-named applicant in case of joint applicant(s)) by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) at your own risk at the address stated in the relevant Application Form.

If your application is made through a duly authorized attorney, our Company, the Lead Manager (for itself and on behalf of the Underwriters), or their respective agents or nominees, each acting as an agent of our Company, may accept the application at their discretion, and subject to any conditions they consider appropriate, including evidence of the authority of your attorney. The Lead Manager, acting as agent of our Company, shall have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW MANY APPLICATIONS YOU MAY MAKE FOR THE PUBLIC OFFER SHARES

You may make more than one application for the Public Offer Shares if you are a nominee, in which case you may make an application by using a **WHITE** or **YELLOW** Application Form, and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the relevant Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner.

If you do not include this information, the application will be treated as being for your own benefit. **Otherwise, multiple applications are not allowed.**

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- if the application is made for your own benefit, warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form, and that you are duly authorized to sign the relevant Application Form as that other person's agent.

Multiple applications or suspected multiple applications are liable to be rejected. All of your applications are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form;
- apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form;
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form for more than 50% of the Public Offer Shares initially available for subscription under the Public Offer; or
- have applied for or taken up, or indicated an interest for or have been or will be placed Offer Shares under the Placing and make application on **WHITE** or **YELLOW** Application Form.

All of your applications are also liable to be rejected as multiple applications if more than one application is made for your benefit or you have applied for or taken up or otherwise indicated an interest for Offer Shares under Placing.

If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise "statutory control" over that company,

then that application will be treated as being for your benefit.

"**An unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of that company; and/or
- control more than half the voting power of that company; and/or
- hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Offer Price

The maximum indicative Offer Price is HK$0.73 per Share. You must also pay the brokerage of 1%, the transaction levy of 0.004% imposed by the SFC and the Stock Exchange trading fee of 0.005%. This means that for every 5,000 Public Offer Shares, you will need to pay HK$3,686.83. The Application Forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares up to 7,500,000 Public Offer Shares.

You must pay the maximum indicative Offer Price, the brokerage, the Stock Exchange trading fee and the transaction levy in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order crossed "Account Payee Only" and made payable to "Horsford Nominees Limited – Perception Digital Public Offer", and must comply with the terms of the Application Forms.

If your application is successful, the brokerage will be paid to participants of the Stock Exchange, the transaction levy will be paid to the SFC and the trading fee will be paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK$0.73 per Share, appropriate refund (including the brokerage, the transaction levy and the Stock Exchange trading fee attributable to the excessive application money) will be made to applicants, **without interest**. Particulars of the procedures for refund are set forth below under the paragraph headed "Despatch/collection of share certificates and refund of application money" in this section below.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on Wednesday, 9 December 2009, or, if the application lists are not open on that day, then by 12:00 noon (Hong Kong time) on the day the application lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any branches of Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "Where to collect the prospectuses and the Application Forms" in this section above at the following times:

Friday, 4 December	**–**	**9:00 a.m. to 5:00 p.m.**
Saturday, 5 December	**–**	**9:00 a.m. to 1:00 p.m.**
Monday, 7 December	**–**	**9:00 a.m. to 5:00 p.m.**
Tuesday, 8 December	**–**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 9 December	**–**	**9:00 a.m. to 12:00 noon**

Application Lists

The application lists will open from 11:45 a.m. to 12:00 noon on Wednesday, 9 December 2009. No proceedings will be taken on applications for our Shares and no allotment of any such Shares will be made until after the closing of the application lists. No allocation of any of the Public Offer Shares will be made after Tuesday, 15 December 2009.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Wednesday, 9 December 2009 in Hong Kong. Instead, the application lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

If the application lists do not open and close on Wednesday, 9 December 2009, the dates mentioned in the section headed "Expected timetable" in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreement) may be affected. An announcement will be made in such event on the GEM website at www.hkexnews.hk and the website of our Company at www.perceptiondigital.com.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Public Offer Shares are set forth in the related Application Forms, and you should read them carefully. You should note in particular the following situations in which the Public Offer Shares will not be allotted to you:

If your application is revoked

By depositing an Application Form, you agree that your application cannot be revoked on or before the expiration of the 5th day after Wednesday, 9 December 2009 or such later date as the application lists may close as described under the paragraph headed "Effect of bad weather on the opening of the application lists" in this section above. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person until after the expiration of the 5th day after closing of the application lists except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively, at our full discretion or the discretion of our agents. Our Company and our agents have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or
- your Application Form is not completed correctly in accordance with the instructions printed thereon; or
- your payment is not made correctly; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or

- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares; or
- we believe that by accepting your application, we would violate the applicable laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction; or
- your application is for more than 100% of the Public Offer Shares initially offered for subscription by the public in either pool A or pool B.

If your application is not accepted

Your application will not be accepted if either:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its respective terms and conditions; or
- no agreement has been reached on the Offer Price on the Price Determination Date.

If the allotment of the Public Offer Shares is void

The allotment of the Public Offer Shares to you or to HKSCC Nominees (if you apply by a **YELLOW** Application Form) will be void if the GEM Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the Applications Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the application lists.

PUBLICATION OF RESULTS

Results of allocations in the Public Offer including (i) the indication of the level of interest in the Placing; (ii) the level of applications in the Public Offer; (iii) the basis of allotment of the Public Offer Shares; (iv) the number of Shares reallocated under the clawback adjustment, if any; (v) the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants and the number of the Public Offer Shares successfully applied for; and (vi) the final Offer Price, will be made available at the times and dates and in the manner specified below:

- on our Company's website at www.perceptiondigital.com and the GEM website at www.hkgem.com from 9:00 a.m. on Tuesday, 15 December 2009 onward;

- on our Public Offer results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Tuesday, 15 December 2009 to 12:00 midnight on Monday, 21 December 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application form to search for his/her/its own allocation result;

- from our Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 15 December 2009 to Friday, 18 December 2009;

- from special allocation results booklets which set out the results of allocations will be available for inspection during opening hours of the designated branches of the receiving banker of the Public Offer from Tuesday, 15 December 2009 to Thursday, 17 December 2009 at the addresses set forth under the paragraph headed "Where to collect the prospectuses and the Application Forms" in this section above.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on 9 December 2009. Our Company will keep any interest accrued on your application monies.

Any certificate relating to the Offer Shares issued by our Company or deposited into CCASS prior to 8:00 a.m. on the Listing Date will only become valid certificate of title if the Public Offer has become unconditional in all aspects and the Underwriting Agreement has not been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date.

Your application money, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and the transaction levy, will be refunded, without interest if:

- your application is rejected, not accepted or only accepted in part;

- the Offer Price as finally determined is less than the maximum indicative Offer Price;

- the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer" in this prospectus;

- any application is revoked or any allocation pursuant thereto has become void; or

- any of the reasons set forth under the paragraph headed "Circumstances in which you will not be allotted the Public Offer Shares" in this section above.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Form: (i) share certificate for all the Public Offer Shares applied for, if your application is wholly successful; or (ii) share certificate for the number of Public Offer Shares successfully applied for, if your application is partially successful; and/or

- for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the excessive application money for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price as determined and the maximum indicative Offer Price, payable upon application, in the event that the Offer Price is lower than the maximum indicative Offer Price, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the transaction levy of 0.004% imposed by the SFC, **without interest**. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque. In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Lead Manager, applications for certain small denominations of the Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques (if any) and share certificates for successful applicants under **WHITE** Application Forms are expected to be despatched on Tuesday, 15 December 2009. We reserve the right to retain any share certificates and any excessive application money pending clearance of cheque(s) or banker's cashier order(s).

If you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or (for applicants using **WHITE** Application Forms) share certificate (where applicable) from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited in person, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque and/or (where applicable) share certificate from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong on Tuesday, 15 December 2009 from 9:00 a.m. to 1:00 p.m. or any other date notified by us as the date of despatch of share certificates/refund cheques.

If you are an individual who opts for collection in person, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorized representative bearing a letter of authorization from the corporation stamped with the corporation's chop must be presented for collection. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong branch share registrar and transfer office. If you do not collect your share certificate and/or refund cheque, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares or if you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your share certificate (where applicable) and/or refund cheque in person, the share certificate and/or refund cheque (if applicable) will be sent to the address on your Application Form on Tuesday, 15 December 2009 or any other date notified by us as the date of despatch of share certificates/refund cheques by ordinary post and at your own risk.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the GEM and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in our Shares on the GEM or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional advisor(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

DEPOSIT OF SHARE CERTIFICATES INTO CCASS

If you apply for the Public Offer Shares using a **YELLOW** Application Form, and your application is wholly or partially successful, your share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Tuesday, 15 December 2009, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Forms on Tuesday, 15 December 2009. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 15 December 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) immediately after the credit of the Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of public offer shares credited to your stock account.

If you are applying through a designated CCASS participant (other than a CCASS Investor Participant), you can check the number of public offer shares allotted to you with that CCASS participant.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the GEM are expected to commence on Wednesday, 16 December 2009. Shares will be traded on the GEM in board lots of 5,000 each. The Stock Exchange stock code for the Shares is 08248.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

4 December 2009

The Directors
Perception Digital Holdings Limited
Quam Capital Limited

Dear Sirs,

We set out below our report on the financial information of Perception Digital Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the "Financial Information"), and the six months ended 30 June 2008 (the "30 June 2008 Financial Information"), prepared on the basis set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 4 December 2009 (the "Prospectus") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Financial Information comprises the combined statements of financial position of the Group as at 31 December 2007 and 2008 and 30 June 2009, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The 30 June 2008 Financial Information comprises the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the six months ended 30 June 2008, together with the notes thereto.

The Company was incorporated in the Cayman Islands on 11 September 2009 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the companies now comprising the Group. The Company has not carried on any business since the date of its incorporation, save for the transactions relating to a corporate reorganization (the "Reorganization") as more fully explained in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus. Pursuant to the Reorganization, the Company became the holding company of Perception Digital Technology (BVI) Ltd. ("Perception Digital (BVI)"), which is incorporated in the British Virgin Islands and the direct/indirect holding company of all the other subsidiaries of the Group during the Relevant Periods.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability (or, if incorporated outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Place and date of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Perception Digital Technology (BVI) (i)	British Virgin Islands 25 February 2000	US$13,197.70	100	Investment holding
Indirectly held:				
Perception Digital Limited (ii)	Hong Kong 22 January 1999	HK$67,690	100	Research, design and development, and provision of digital signal processing platform and embedded firmware, and provision of turnkey solutions
PD Trading (Hong Kong) Limited (ii)	Hong Kong 11 September 2000	HK$2	100	Trading of consumer electronic devices and components
IWC Digital Limited (ii)	Hong Kong 10 March 2000	HK$2	100	Inactive
幻音科技(深圳)有限公司* (iii)	People's Republic of China (the "PRC") 16 October 2001	HK$8,000,000	100	Research and development, and provision of digital signal processing platform and embedded firmware and trading of consumer electronic devices

* This entity is a wholly foreign owned enterprise established in the PRC.

Notes:

(i) For the purpose of this report, we have audited the consolidated financial statements of Perception Digital (BVI) for the years ended 31 December 2007 and 2008.

(ii) We have audited the statutory financial statements of these companies for the years ended 31 December 2007 and 2008.

(iii) The statutory financial statements of this company for the years ended 31 December 2007 and 2008 were audited by 深圳皇嘉會計師事務所 (Wongga Partners Certified Public Accountants (Shenzhen)) registered in the PRC.

As at the date of this report, no audited financial statements have been prepared for the Company since the date of its incorporation, as it was newly incorporated and has not been involved in any business transactions, other than the Reorganization. For the purpose of this report, we have, however, performed our own independent review of all relevant transactions of the Company since the date of its incorporation and carried out such procedures as we considered necessary for inclusion of the relevant information of the Company in this report.

All the companies now comprising the Group have adopted 31 December as their financial year end date.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of Perception Digital (BVI) for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

Respective responsibilities of directors and reporting accountants

The directors of the respective companies now comprising the Group are responsible for the preparation and the true and fair presentation of the respective audited financial statements and, where appropriate, management accounts. The directors of the Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information for the Relevant Periods in accordance with HKFRSs and the contents of the Prospectus in which this report is included. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. For the purpose of this report, it is our responsibility to express an independent opinion on the Financial Information based on our examination and to report our opinion to you.

The 30 June 2008 Financial Information has been prepared by the directors of the Company solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. For the purpose of this report, it is our responsibility to form an independent review conclusion, based on our review on the 30 June 2008 Financial Information and to report our conclusion to you.

Procedures performed in respect of the Financial Information

The Financial Information of the Group for the Relevant Periods has been prepared from the Underlying Financial Statements on the basis set out in note 2.1 of Section II below. For the purpose of this report, we have audited the Underlying Financial Statements for each of the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA, this involves examining the audited financial statements or, where appropriate, management accounts of all the companies now comprising the Group for each of the Relevant Periods, and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements for the Relevant Periods in preparing the Financial Information included in this report.

Procedures performed in respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information, for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an opinion on the 30 June 2008 Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and presented on the basis set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2007 and 2008 and 30 June 2009 and of the combined results and cash flows of the Group for each of the Relevant Periods, in accordance with HKFRSs.

Review conclusion in respect of the 30 June 2008 Financial Information

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information, for the purpose of this report and presented on the basis set out in note 2.1 of Section II below, is not prepared, in all material respects, in accordance with HKFRSs.

I. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

	Notes	Year ended 31 December 2007 HK$	Year ended 31 December 2008 HK$	Six months ended 30 June 2008 HK$ (unaudited)	Six months ended 30 June 2009 HK$
REVENUE	6	616,738,169	555,780,401	165,659,483	147,737,431
Cost of sales		(493,990,112)	(460,446,469)	(129,332,775)	(117,424,741)
Gross profit		122,748,057	95,333,932	36,326,708	30,312,690
Other income	6	729,186	582,718	476,932	12,092
Research and development costs		(24,362,543)	(26,273,609)	(12,211,269)	(7,001,435)
Selling and distribution costs		(18,079,881)	(15,556,055)	(6,385,396)	(5,602,580)
General and administrative expenses		(26,078,472)	(31,978,348)	(16,186,299)	(12,216,713)
Other expenses, net		(3,870,515)	(4,603,711)	(1,080,903)	(431,220)
Finance costs	7	(11,231,806)	(4,821,828)	(2,653,661)	(2,056,991)
PROFIT/(LOSS) BEFORE TAX	8	39,854,026	12,683,099	(1,713,888)	3,015,843
Tax	11	(9,067,718)	(4,520,419)	(274,351)	669,554
PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		30,786,308	8,162,680	(1,988,239)	3,685,397
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12				
Basic (HK cents)		5.1	1.4	(0.3)	0.6
Diluted		N/A	N/A	N/A	N/A

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

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

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2007 HK$	As at 31 December 2008 HK$	As at 30 June 2009 HK$
NON-CURRENT ASSETS				
Property, plant and equipment	13	4,622,776	6,200,885	5,042,194
Deferred development costs	14	–	2,288,775	6,315,925
Available-for-sale investment	15	510,200	–	–
Rental deposits		382,599	571,154	–
Deferred tax assets	25	5,159,807	1,477,969	1,113,434
Total non-current assets		10,675,382	10,538,783	12,471,553
CURRENT ASSETS				
Inventories	16	3,352,844	9,168,561	7,965,520
Trade and bills receivables	17	241,400,629	195,167,739	106,370,915
Prepayments, deposits and other receivables	18	2,613,666	5,332,801	7,204,394
Due from a director	19	–	11,511,364	14,918,486
Pledged deposit	20	775,731	796,676	804,260
Cash and bank balances	20	26,215,458	9,356,415	9,249,109
Total current assets		274,358,328	231,333,556	146,512,684
CURRENT LIABILITIES				
Trade payables	21	171,180,657	153,016,365	84,297,510
Other payables and accruals	22	21,902,216	17,735,127	14,660,224
Due to a director	19	8,753,509	–	–
Loans from related parties	23	26,165,397	27,615,397	31,979,677
Interest-bearing bank borrowings	24	100,091,172	76,520,073	58,410,141
Tax payable		1,397,525	2,393,461	1,359,372
Total current liabilities		329,490,476	277,280,423	190,706,924
NET CURRENT LIABILITIES		(55,132,148)	(45,946,867)	(44,194,240)
TOTAL ASSETS LESS CURRENT LIABILITIES		(44,456,766)	(35,408,084)	(31,722,687)
NON-CURRENT LIABILITY				
Loan from a shareholder	23	525,620	525,620	525,620
Net liabilities		(44,982,386)	(35,933,704)	(32,248,307)
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	26	95,316	95,316	95,316
Reserves		(45,077,702)	(36,029,020)	(32,343,623)
Total equity		(44,982,386)	(35,933,704)	(32,248,307)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Issued capital HK$	Share premium account* HK$	Capital reserve* HK$	Exchange fluctuation reserve* HK$ (note)	Accumulated losses* HK$	Total equity HK$
At 1 January 2007		89,216	45,903,552	4,003,478	(253,262)	(125,653,702)	(75,910,718)
Profit for the year		–	–	–	–	30,786,308	30,786,308
Other comprehensive income		–	–	–	135,924	–	135,924
Total comprehensive income attributable to equity holders of the Company		–	–	–	135,924	30,786,308	30,922,232
Issue of shares	26	6,100	–	–	–	–	6,100
At 31 December 2007 and at 1 January 2008		95,316	45,903,552	4,003,478	(117,338)	(94,867,394)	(44,982,386)
Profit for the year		–	–	–	–	8,162,680	8,162,680
Other comprehensive income		–	–	–	886,002	–	886,002
Total comprehensive income attributable to equity holders of the Company		–	–	–	886,002	8,162,680	9,048,682
At 31 December 2008 and at 1 January 2009		95,316	45,903,552	4,003,478	768,664	(86,704,714)	(35,933,704)
Profit for the period		–	–	–	–	3,685,397	3,685,397
Total comprehensive income attributable to equity holders of the Company		–	–	–	–	3,685,397	3,685,397
At 30 June 2009		95,316	45,903,552	4,003,478	768,664	(83,019,317)	(32,248,307)
At 1 January 2008		95,316	45,903,552	4,003,478	(117,338)	(94,867,394)	(44,982,386)
Loss for the period (unaudited)		–	–	–	–	(1,988,239)	(1,988,239)
Other comprehensive income (unaudited)		–	–	–	695,681	–	695,681
Total comprehensive loss attributable to equity holders of the Company (unaudited)		–	–	–	695,681	(1,988,239)	(1,292,558)
At 30 June 2008 (unaudited)		95,316	45,903,552	4,003,478	578,343	(96,855,633)	(46,274,944)

* These reserve accounts comprise the combined negative reserves of HK$45,077,702, HK$36,029,020 and HK$32,343,623 in the combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively.

Note: The capital reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired over the nominal value of the shares of Perception Digital (BVI) issued in exchange therefore pursuant to the group reorganization in 2000.

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2007 HK$	Year ended 31 December 2008 HK$	Six months ended 30 June 2008 HK$ (unaudited)	Six months ended 30 June 2009 HK$
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		39,854,026	12,683,099	(1,713,888)	3,015,843
Adjustments for:					
Finance costs	7	11,231,806	4,821,828	2,653,661	2,056,991
Interest income	6	(105,704)	(178,463)	(113,010)	(12,092)
Depreciation	8	2,827,174	2,822,235	1,288,829	1,408,652
Amortization	8	–	–	–	776,872
Impairment of items of property, plant and equipment	8	2,160,414	1,561,331	544,730	488,500
Loss on disposal of items of property, plant and equipment	8	–	88,752	25,973	3,246
Impairment of trade receivables	8	1,710,101	369,461	–	–
Write-back of provision for impairment of trade receivables	8	–	(266,033)	–	(60,526)
Impairment of available-for-sale investment	8	–	510,200	510,200	–
Impairment of an other financial asset	8	–	2,340,000	–	–
Write-down of inventories to net realizable value	8	11,196,771	7,133,992	4,673,849	443,090
Equity-settled share-based payment expense	8	6,100	–	–	–
		68,880,688	31,886,402	7,870,344	8,120,576
Increase in deferred development costs		–	(2,288,775)	(878,032)	(4,804,022)
Decrease/(increase) in rental deposits		(136,463)	(188,555)	272,807	–
Decrease/(increase) in inventories		5,493,813	(12,949,709)	(8,242,520)	759,951
Decrease/(increase) in trade and bills receivables		(211,265,580)	46,843,326	132,432,992	88,857,350
Increase in prepayments, deposits and other receivables		(296,815)	(2,659,895)	(5,032,544)	(1,300,439)
Increase/(decrease) in trade payables		143,828,634	(18,319,603)	(118,276,016)	(68,718,855)
Increase/(decrease) in other payables and accruals		7,250,807	(4,478,222)	(7,111,920)	(3,074,903)
Increase/(decrease) in an amount due to a director		8,753,509	(8,753,509)	(8,753,509)	–
Cash generated from/(used in) operations		22,508,593	29,091,460	(7,718,398)	19,839,658
Hong Kong tax paid		–	(8,750)	–	–
Net cash inflow/(outflow) from operating activities		22,508,593	29,082,710	(7,718,398)	19,839,658

	Notes	Year ended 31 December 2007 HK$	Year ended 31 December 2008 HK$	Six months ended 30 June 2008 HK$ (unaudited)	Six months ended 30 June 2009 HK$
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		(5,759,214)	(6,102,691)	(2,429,802)	(815,405)
Proceeds from disposal of items of property, plant and equipment		–	328,138	1,658	73,698
Purchase of an other financial asset		–	(2,340,000)	(2,340,000)	–
Purchase of an available-for-sale investment		(510,200)	–	–	–
Increase in pledged time deposit		–	(20,945)	–	(7,584)
Interest received		105,704	178,463	113,010	12,092
Increase in an amount due from a director		–	(11,511,364)	–	(3,407,122)
Net cash outflow from investing activities		(6,163,710)	(19,468,399)	(4,655,134)	(4,144,321)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in loans from related parties		11,000,000	8,000,000	8,000,000	6,000,000
Repayment of loans from a related party		–	(6,550,000)	(1,246,491)	(1,635,720)
New bank loans		385,965,479	285,362,982	124,830,383	139,281,566
Repayment of bank loans		(376,035,646)	(309,785,892)	(149,424,670)	(155,493,660)
Interest and bank charges paid		(9,947,048)	(4,821,828)	(2,653,661)	(2,056,991)
Net cash inflow/(outflow) from financing activities		10,982,785	(27,794,738)	(20,494,439)	(13,904,805)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		27,327,668	(18,180,427)	(32,867,971)	1,790,532
Cash and cash equivalents at beginning of year/period		(4,964,701)	22,366,078	22,366,078	4,655,224
Effect of foreign exchange rate changes, net		3,111	469,573	680,314	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		22,366,078	4,655,224	(9,821,579)	6,445,756
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	20	26,215,458	9,356,415	1,475,097	9,249,109
Bank overdrafts	24	(3,849,380)	(4,701,191)	(11,296,676)	(2,803,353)
		22,366,078	4,655,224	(9,821,579)	6,445,756

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 11 September 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Particulars of the companies now comprising the Group have been set out in the foregoing section.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

2.1 Pursuant to the Reorganization completed on 30 November 2009, the Company was incorporated and interspersed between Perception Digital BVI and the equity holders of Perception Digital BVI and became the holding company of Perception Digital BVI and its subsidiaries. As the Reorganization only involved inserting a new holding entity at the top of an existing group and has not resulted in any change of economic substances, the Financial Information for the Relevant Periods has been presented as a continuation of the existing group using the pooling of interest method. Accordingly, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows are prepared as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009, present the assets and liabilities of the companies now comprising the Group, which had been incorporated/established as at the end of the respective reporting periods, as if the current group structure had been in existence at those dates.

2.2 As at 30 June 2009, the total liabilities of the Group exceeded its total assets by approximately HK$32.2 million and total current liabilities exceeded its total current assets by approximately HK$44.2 million. In respect of certain short term banking facilities granted to the Group in an aggregate amount of approximately HK$105.8 million and HK$102.8 million as at 31 December 2008 and 30 June 2009, respectively, of which approximately HK$76.5 million and HK$58.4 million were utilized as at 31 December 2008 and 30 June 2009, respectively, the Group was unable to provide audited financial statements for the year ended 31 December 2008 to the creditor bankers within the time period as specified in the corresponding banking facility letters. Taking into consideration the financial resources available to the Group, including its available credit facilities and internally generated funds, and the estimated net proceeds of the placing and public offering of new shares of the Company (the "Share Offer", as further detailed in the Prospectus), the directors of the Company have considered that the Group will have sufficient financial resources to finance its working capital requirements for the foreseeable future and, accordingly, have prepared the Underlying Financial Statements and the Financial Information, for the purpose of this report, on a going concern basis notwithstanding the net liabilities and the net current liabilities positions of the Group.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars.

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's financial year beginning on or after 1 January 2007. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods, except for those new and revised HKFRSs that are not yet effective for any of the Relevant Periods.

A summary of the significant accounting policies adopted and consistently applied in the preparation of the Financial Information is set out below.

Basis of consolidation

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Impairment of 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 the end of each reporting period 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.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	25%
Machinery and equipment	25%
Leasehold improvements	Over the shorter of the lease terms and 25%
Toolings	50%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rental payables under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalized and deferred only when the 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.

Investments and other financial assets

Financial assets of the Group in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognized in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

When the fair value of an unlisted investment cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investment is stated at cost less any impairment losses.

Loans and receivables

Loans and 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognized in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment 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 the 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.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event after the impairment loss was recognized in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to a director, loans from a shareholder and related parties, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the income statement.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable 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.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred revenue and deferred cost of revenue

Deferred revenue represents contractual billings/amounts due from customers in excess of recognized revenue or for which the applicable revenue recognition criteria are not yet satisfied. Such amounts are deferred together with the corresponding costs (the "deferred cost of revenue") and are subsequently released to the income statement when the applicable revenue recognition criteria are satisfied.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the 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 the 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 recognised 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.

Share-based payment transactions

The Group may grant equity instruments to employees (including directors) or entities designated by/related to/for the benefit of the relevant employees for the purpose of providing incentives and/or rewards to those who contribute to the success of the Group. Employees (including directors) of the Group may directly or indirectly receive remuneration/reward in the form of share-based payment transactions, whereby the Group receives goods or services as consideration for equity instruments ("equity-settled transactions").

In situation where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) at the grant date.

In situations where the share-based payment transactions are with employees of the Group, the cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted, taking into account the terms and conditions upon which these equity instruments are granted. The fair value is determined by an external valuer using an appropriate valuation model, further details of which are given in note 26 under Section II of this report. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the issuer of the equity instruments ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilized by the respective employees in the following period. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a specific percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

The Company's functional currency is United States dollar. The Company has adopted Hong Kong dollar as its presentation currency, as the principal place of business of the Group's principal operating entities is located in Hong Kong and, in the opinion of the directors, it is more suitable to present these financial statements in Hong Kong dollars as most of the users of the financial statements are located in Hong Kong. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

As at the end of each reporting period, the assets and liabilities of the entities comprising the Group in which their functional currencies are currencies other than the Hong Kong dollar are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the reporting period. The resulting exchanges differences are included in the exchange fluctuation reserve. On disposal of such a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the combined statements of cash flows, the cash flows of those entities comprising the Group in which their functional currencies are currencies other than the Hong Kong dollar are translated into the presentation currency of the Company at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of those entities which arise throughout the reporting period are translated into Hong Kong dollars at the weighted average exchange rates for the reporting period.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in preparing the Financial Information.

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[4]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[5]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[3]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2010

3 Effective for transfers of assets from customers received on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 February 2010

6 Effective for annual periods beginning on or after 1 January 2013

In October 2008, the HKICPA issued *Improvements to HKFRSs* with a view to removing inconsistencies and clarifying wording and which contains, inter alia, an amendment to HKFRS 5. The amendment to HKFRS 5 is effective for the annual periods on or after 1 July 2009.

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2009* in May 2009 which set out amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendix to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-16, which are effective for annual periods beginning on or after 1 July 2009, and no effective date for the amendment to the Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for certain amendments.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, save as not yet in a position to assess the possible impact of the adoption of the recently issued HKFRS 9 and HKAS 24 (Revised), the directors of the Company preliminary anticipate that the adoption of the new and revised HKFRSs is unlikely to have a significant impact on the Group's results of operations and financial position.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Financial Information:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities now comprising the Group, judgement is required to determine and consider the currency that mainly influences the sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional currencies of the entities now comprising the Group are determined based on management's assessment of the primary economic environment in which the entities operate. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Development costs

Development costs are capitalized and deferred in accordance with the accounting policy as set out in note 3 under Section II of this report. Initial capitalization of costs is based on management's judgement that the Group can demonstrate the technological and economical feasibility of completing the intangible asset so that it will be available for use or sale, usually when a product development project has reached a defined milestone according to an established project management model.

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Adoption of the going concern basis

In assessing whether the going concern assumption is appropriate in the presentation of the Financial Information, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to the sufficiency of the Group's financial resources to satisfy its working capital and other financing requirements for the foreseeable future, including, inter alia, the ongoing support of the Group's creditor bankers, current and expected profitability, debt repayment schedules, potential sources of new funds, and other measures/arrangements before they can satisfy themselves that the going concern basis is appropriate.

The failure of the Group to continue as a going concern could result in certain assets realizing significantly less than the amounts stated in the combined statement of financial position, non-current assets being reclassified as current assets, and might lead to additional liabilities being incurred by the Group.

Share-based payment transactions

A subsidiary of the Company has granted certain equity instruments to entities designated by/related to/for the benefit of certain employees of the Group in connection with certain equity-settled transactions. The Group measures the cost of these equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for the equity instruments granted, depending on the terms and conditions of the grant and other specific facts and circumstances. Management is also required to use judgement in determining the most appropriate inputs to the valuation model. Further details are contained in note 26 under Section II of this report.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

The Group maintains an allowance for estimated impairment of trade receivables arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets with finite lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of unlisted available-for-sale investment and other financial asset

Certain unlisted available-for-sale investment and other financial asset of the Group are stated at cost less any impairment losses, when their fair value cannot be reliably measured. Management exercises judgement based on the observable data relating to the possible events that may have caused the decline in value to determine whether the decline in value is an impairment that should be recognized in the income statement.

Net realizable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the 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. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilized. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the taxable profits of the entities in which the losses arose. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 under Section II of this report.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs as set out in note 3 under Section II of this report. Determining the amounts to be capitalized requires management to make significant assumptions and estimates regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the property, plant and equipment's estimated economic useful lives. Management estimates the useful lives of the property, plant and equipment to be two to four years or over the shorter of the lease terms and four years for leasehold improvements. Changes in the expected level of usage, technological developments and/or the period over which future economic benefits are generated could impact the economic useful lives of the assets and, therefore, future depreciation charges could be revised.

Useful lives of deferred development costs

The Company's management determines the estimated useful lives of its deferred development costs for calculation of amortization of deferred development costs. This estimate is determined after considering the expected period in which economic benefits can be generated from the development projects/products in which the deferred development costs relate to. Management reviews the estimated useful lives on an annual basis and future amortization charges are adjusted where management believes the useful lives differ from previous estimates.

Fair value of financial instruments

Where fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. SEGMENT INFORMATION

The Group focuses on the research, design and development of digital signal processing platform and embedded firmware and the provision of turnkey solutions to customers mainly for their digital signal processing based consumer electronic devices. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and assessment performance is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis is presented.

Geographical information

The following tables present revenue from external customers and certain non-current assets information by geographical locations for each of the Relevant Periods and the six months ended 30 June 2008.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2007						
Revenue from external customers	241,287,079	230,072,337	114,363,016	23,752,899	7,262,838	616,738,169
At 31 December 2007						
Non-current assets	–	–	2,790,183	2,215,192	–	5,005,375
Year ended 31 December 2008						
Revenue from external customers	62,096,096	21,806,323	437,417,276	28,846,030	5,614,676	555,780,401
At 31 December 2008						
Non-current assets	–	–	3,730,346	5,330,468	–	9,060,814
Six months ended 30 June 2008						
Revenue from external customers (unaudited)	59,662,770	6,700,654	83,729,342	12,788,311	2,778,406	165,659,483
Six months ended 30 June 2009						
Revenue from external customers	54,876,996	16,090,882	20,632,427	54,671,134	1,465,992	147,737,431
At 30 June 2009						
Non-current assets	–	–	3,676,985	7,681,134	–	11,358,119

The Group's revenue by geographical locations are determined by the destination where the goods are delivered, except for revenue arising from the rendering of services and royalty income, which is determined by the locations where the customers are domiciled/located. Non-current assets of the Group by geographical locations is determined based on the locations of the assets.

Reconciliation:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Total non-current assets for the purpose of geographical information	5,005,375	9,060,814	11,358,119
Unallocated assets:			
Available-for-sale investment	510,200	–	–
Deferred tax assets	5,159,807	1,477,969	1,113,434
The Group's total non-current assets	10,675,382	10,538,783	12,471,553

Information about major customers

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Customer A	227,175,863	458,190,724	98,622,429	109,214,339
Customer B	108,254,894	–	–	–
Customer C	67,494,043	–	–	–
Customer D	–	58,804,519	50,426,176	–

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalty income received and receivable during the reporting period.

An analysis of revenue and other income for each of the Relevant Periods and the six months ended 30 June 2008 is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Revenue				
Sale of goods	573,311,209	505,477,414	144,702,747	131,279,066
Rendering of services	11,096,038	12,589,614	5,824,232	6,504,425
Royalty income	32,330,922	37,713,373	15,132,504	9,953,940
	616,738,169	555,780,401	165,659,483	147,737,431
Other income				
Bank interest income	105,704	178,463	113,010	12,092
Handling income	623,482	404,255	363,922	–
	729,186	582,718	476,932	12,092

7. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Interest on bank loans and overdrafts wholly repayable within five years	8,939,686	4,045,560	2,245,872	1,729,179
Interest on loans from related parties and a shareholder *(note 23)*	1,284,758	–	–	–
Bank charges	1,007,362	776,268	407,789	327,812
	11,231,806	4,821,828	2,653,661	2,056,991

8. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Cost of inventories sold and services rendered	493,990,112	460,446,469	129,332,775	117,424,741
Depreciation	2,827,174	2,822,235	1,288,829	1,408,652
Research and development costs:				
Deferred expenditure amortized^	–	–	–	776,872
Current year expenditure	24,362,543	26,273,609	12,211,269	7,001,435
	24,362,543	26,273,609	12,211,269	7,778,307
Minimum lease payments under operating leases:				
Land and buildings	2,510,791	3,437,456	1,656,446	1,371,783
Office equipment	84,331	90,848	44,497	42,635
	2,595,122	3,528,304	1,700,943	1,414,418
Auditors' remuneration	948,000	985,000	492,500	492,500
Employee benefit expense (including directors' remuneration *(note 9)*):				
Wages, salaries, allowances and bonuses	37,371,077	45,570,259	21,884,263	20,616,824
Equity-settled share-based payment expense	6,100	–	–	–
Pension scheme contributions (defined contribution scheme)	715,605	768,796	411,964	421,912
	38,092,782	46,339,055	22,296,227	21,038,736
Foreign exchange differences, net	607,176	1,318,067	503,835	86,731
Impairment of items of property, plant and equipment*	2,160,414	1,561,331	544,730	488,500
Loss on disposal of items of property, plant and equipment, net	–	88,752	25,973	3,246
Impairment of trade receivables	1,710,101	369,461	–	–
Write-back of provision for impairment of trade receivables	–	(266,033)	–	(60,526)
Impairment of an available-for-sale investment*	–	510,200	510,200	–
Impairment of an other financial asset#	–	2,340,000	–	–
Write-down of inventories to net realizable value^	11,196,771	7,133,992	4,673,849	443,090

* The impairment of items of property, plant and equipment and the impairment of an available-for-sale investment are included in "Other expenses, net" on the face of the combined income statement.

^ The amortization of deferred development costs and the write-down of inventories to net realizable value are included in "Cost of sales" on the face of the combined income statement.

During the year ended 31 December 2008, the Group recognized an impairment of an other financial asset of HK$2,340,000 that relates to a counterparty that is in default/financial difficulties. The Group does not hold any collateral or other credit enhancement over such asset.

9. DIRECTORS' REMUNERATION

Details of the remuneration paid and payable to the directors of the Company for the Relevant Periods and the six months ended 30 June 2008 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Fee	120,000	165,000	90,000	–
Other emoluments:				
Salaries, allowances, bonuses and benefits in kind	1,112,011	1,852,078	811,020	749,700
Equity-settled share-based payment expense	6,100	–	–	–
Pension scheme contributions (defined contribution scheme)	17,000	24,000	12,000	12,000
	1,255,111	2,041,078	913,020	761,700

During the year ended 31 December 2007, 2,933 and 4,888 ordinary shares of Perception Digital (BVI) were issued and allotted to certain entities designated by/related to/for the benefit of Dr. Jack Lau and Mr. Chui Shing Yip, respectively, who are employees of the Group and also the current directors of the Company, for the purpose of providing incentives/rewards for their contributions to the success of the Group (the "Equity-settled Share-based Payment Transactions"). Further details of which are set out in note 26 under Section II of this report.

The remuneration of each of the directors of the Company for the Relevant Periods and the six months ended 30 June 2008 is set out below:

	Fee	Salaries allowances, bonuses and benefits in kind	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2007					
Executive directors:					
Dr. Jack Lau	–	620,000	2,288	12,000	634,288
Dr. Tsui Chi Ying	120,000	30,000	–	–	150,000
Dr. Cheng Shu Kwan, Roger	–	–	–	–	–
Mr. Lam Sze Chung, Paul	–	–	–	–	–
Mr. Chui Shing Yip	–	462,011	3,812	5,000	470,823
	120,000	1,112,011	6,100	17,000	1,255,111
Year ended 31 December 2008					
Executive directors:					
Dr. Jack Lau	–	840,258	–	12,000	852,258
Dr. Tsui Chi Ying	165,000	–	–	–	165,000
Dr. Cheng Shu Kwan, Roger	–	–	–	–	–
Mr. Lam Sze Chung, Paul	–	–	–	–	–
Mr. Chui Shing Yip	–	1,011,820	–	12,000	1,023,820
	165,000	1,852,078	–	24,000	2,041,078
Six months ended 30 June 2008 (unaudited)					
Executive directors:					
Dr. Jack Lau	–	300,000	–	6,000	306,000
Dr. Tsui Chi Ying	90,000	–	–	–	90,000
Dr. Cheng Shu Kwan, Roger	–	–	–	–	–
Mr. Lam Sze Chung, Paul	–	–	–	–	–
Mr. Chui Shing Yip	–	511,020	–	6,000	517,020
	90,000	811,020	–	12,000	913,020
Six months ended 30 June 2009					
Executive directors:					
Dr. Jack Lau	–	300,000	–	6,000	306,000
Dr. Tsui Chi Ying	–	–	–	–	–
Dr. Cheng Shu Kwan, Roger	–	–	–	–	–
Mr. Lam Sze Chung, Paul	–	–	–	–	–
Mr. Chui Shing Yip	–	449,700	–	6,000	455,700
	–	749,700	–	12,000	761,700

No emoluments were paid to the non-executive directors and independent non-executive directors of the Company during the Relevant Periods and the six months ended 30 June 2008.

No remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods and the six months ended 30 June 2008.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2008.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director for each of the Relevant Periods and the six months ended 30 June 2008. Information relating to directors' remuneration has been disclosed in note 9 under Section II of this report. Details of the remuneration of the remaining four non-director, highest paid employees for the Relevant Periods and the six months ended 30 June 2008 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Salaries, allowances and bonuses	5,355,050	5,422,464	2,759,800	2,091,467
Pension scheme contributions (defined contribution scheme)	31,000	36,000	18,000	17,000
	5,386,050	5,458,464	2,777,800	2,108,467

The number of non-director, highest-paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Nil to HK$1,000,000	2	1	4	4
HK$1,000,001 to HK$1,500,000	–	1	–	–
HK$1,500,001 to HK$2,000,000	1	2	–	–
HK$2,000,001 to HK$2,500,000	1	–	–	–
	4	4	4	4

No remuneration was paid or payable by the Group to the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods and the six months ended 30 June 2008.

11. TAX

Hong Kong profits tax has been provided at the 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 2008 and 2009. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Current:				
Hong Kong				
– Underprovision in prior periods	–	284,419	–	–
Elsewhere				
– Charge for the year/period	1,397,525	554,162	–	518,746
– Overprovision in prior periods	–	–	–	(1,552,835)
	1,397,525	838,581	–	(1,034,089)
Deferred *(note 25)*	7,670,193	3,681,838	274,351	364,535
Total tax charge/(credit) for the year/period	9,067,718	4,520,419	274,351	(669,554)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the Hong Kong statutory rate (the statutory tax rate for the jurisdiction in which the majority of the Group's operating subsidiaries are domiciled) to the tax charge/(credit) at the Group's effective tax rate is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Profit/(loss) before tax	39,854,026	12,683,099	(1,713,888)	3,015,843
Hong Kong statutory tax rate	17.5%	16.5%	16.5%	16.5%
Tax expense/(credit) at the Hong Kong statutory tax rate	6,974,455	2,092,711	(282,792)	497,614
Effect on opening deferred tax of decrease in rate	–	287,413	287,413	–
Effect of difference in tax rate/ tax rule for specific jurisdiction or enacted by local tax authority	1,374,697	356,410	59,321	67,891
Adjustment in respect of current tax of prior periods	–	284,419	–	(1,552,835)
Adjustment in respect of deferred tax of prior periods	724,005	771,280	–	–
Income not subject to tax	(36,007)	(85,628)	(83,063)	(71,249)
Expenses not deductible for tax	745,830	731,766	185,676	368,927
Tax losses utilized from prior periods	(715,262)	–	–	–
Others	–	82,048	107,796	20,098
Tax charge/(credit) at the Group's effective tax rate	9,067,718	4,520,419	274,351	(669,554)

The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008 and the six months ended 30 June 2008 and 2009.

The Group's subsidiary established and operating in the Shenzhen Special Economic Zone (the "SEZ") of the PRC is subject to PRC corporate income tax ("CIT") rate of 15% for the year ended 31 December 2007. The Group's subsidiary established and operating in the SEZ is subject to the PRC's State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of five years to comply with the requirements of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate on or before 31 December 2007 will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for each of the Relevant Periods and the six months ended 30 June 2008 attributable to the ordinary equity holders of the Company, and on the assumption that 600,000,000 shares had been in issue throughout the Relevant Periods and the six months ended 30 June 2008, comprising 131,977 shares in issue at the date of the Prospectus, and 599,868,023 shares to be issued pursuant to the capitalization issue and share offer as more fully explained in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus.

	Year ended 31 December		**Six months ended 30 June**	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Profit/(loss) attributable to equity holders of the Company used in the basic earnings/(loss) per share calculation	30,786,308	8,162,680	(1,988,239)	3,685,397
Weighted average number of shares in issue used in the basic earnings/(loss) per share calculation (HK cents)	5.1	1.4	(0.3)	0.6

There were no potential dilutive ordinary shares in existence during the Relevant Periods and the six months ended 30 June 2008 and therefore, no diluted earnings per share amounts have been presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment	Machinery and equipment	Leasehold improvements	Toolings	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2007						
At 1 January 2007:						
Cost	4,616,911	470,998	455,154	9,007,675	159,406	14,710,144
Accumulated depreciation and impairment	(2,871,318)	(269,419)	(195,722)	(7,467,258)	(92,597)	(10,896,314)
Net carrying amount	1,745,593	201,579	259,432	1,540,417	66,809	3,813,830
At 1 January 2007, net of accumulated depreciation and impairment	1,745,593	201,579	259,432	1,540,417	66,809	3,813,830
Additions	2,611,283	347,118	130,310	2,670,503	–	5,759,214
Depreciation provided during the year	(1,027,973)	(106,309)	(126,443)	(1,525,378)	(41,071)	(2,827,174)
Impairment	–	–	–	(2,160,414)	–	(2,160,414)
Exchange realignment	34,632	–	1,046	–	1,642	37,320
At 31 December 2007, net of accumulated depreciation and impairment	3,363,535	442,388	264,345	525,128	27,380	4,622,776
At 31 December 2007:						
Cost	7,297,849	818,116	585,893	11,678,178	164,284	20,544,320
Accumulated depreciation and impairment	(3,934,314)	(375,728)	(321,548)	(11,153,050)	(136,904)	(15,921,544)
Net carrying amount	3,363,535	442,388	264,345	525,128	27,380	4,622,776
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	7,297,849	818,116	585,893	11,678,178	164,284	20,544,320
Accumulated depreciation and impairment	(3,934,314)	(375,728)	(321,548)	(11,153,050)	(136,904)	(15,921,544)
Net carrying amount	3,363,535	442,388	264,345	525,128	27,380	4,622,776
At 1 January 2008, net of accumulated depreciation and impairment	3,363,535	442,388	264,345	525,128	27,380	4,622,776
Additions	1,741,906	824,988	100,699	2,972,824	462,274	6,102,691
Disposals	(2,769)	–	–	–	(414,121)	(416,890)
Depreciation provided during the year	(1,597,522)	(281,669)	(149,539)	(715,539)	(77,966)	(2,822,235)
Impairment	–	–	–	(1,561,331)	–	(1,561,331)
Exchange realignment	252,016	–	21,425	–	2,433	275,874
At 31 December 2008, net of accumulated depreciation and impairment	3,757,166	985,707	236,930	1,221,082	–	6,200,885
At 31 December 2008:						
Cost	9,509,020	1,643,104	733,515	14,464,102	182,542	26,532,283
Accumulated depreciation and impairment	(5,751,854)	(657,397)	(496,585)	(13,243,020)	(182,542)	(20,331,398)
Net carrying amount	3,757,166	985,707	236,930	1,221,082	–	6,200,885

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
30 June 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	9,509,020	1,643,104	733,515	14,464,102	182,542	26,532,283
Accumulated depreciation and impairment	(5,751,854)	(657,397)	(496,585)	(13,243,020)	(182,542)	(20,331,398)
Net carrying amount	3,757,166	985,707	236,930	1,221,082	–	6,200,885
At 1 January 2009, net of accumulated depreciation and impairment	3,757,166	985,707	236,930	1,221,082	–	6,200,885
Additions	100,617	–	–	571,844	142,944	815,405
Disposals	(35,121)	–	(41,823)	–	–	(76,944)
Depreciation provided during the period	(812,791)	(174,630)	(60,849)	(357,404)	(2,978)	(1,408,652)
Impairment	–	–	–	(488,500)	–	(488,500)
At 30 June 2009, net of accumulated depreciation and impairment	3,009,871	811,077	134,258	947,022	139,966	5,042,194
At 30 June 2009:						
Cost	9,561,723	1,643,104	674,701	15,035,946	142,944	27,058,418
Accumulated depreciation and impairment	(6,551,852)	(832,027)	(540,443)	(14,088,924)	(2,978)	(22,016,224)
Net carrying amount	3,009,871	811,077	134,258	947,022	139,966	5,042,194

During the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009, the directors reassessed the recoverable amount of certain items of toolings with reference to the changes in technological, market and economic environment, and estimated sales orders, and considered that a provision for impairment of HK$2,160,414, HK$1,561,331 and HK$488,500, respectively, should be made for items that have become obsolete. In the opinion of the directors, such items do not have any material fair value less cost to sell or value in use that could be recovered.

14. DEFERRED DEVELOPMENT COSTS

	2007	2008	2009
	HK$	*HK$*	*HK$*
Cost at 1 January, net of accumulated amortization and impairment	–	–	2,288,775
Additions – internal development	–	2,288,775	4,804,022
Amortization provided during the year/period	–	–	(776,872
At end of year/period	–	2,288,775	6,315,925
At end of year/period:			
Cost	11,077,360	13,366,135	18,170,157
Accumulated amortization and impairment	(11,077,360)	(11,077,360)	(11,854,232)
Net carrying amount	–	2,288,775	6,315,925

The cost and the accumulated amortization and impairment of the Group's deferred development costs as at 1 January 2007 both amounted to HK$11,077,360.

15. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$	*HK$*	*HK$*
Unlisted equity investment, at cost	510,200	510,200	–
Impairment	–	(510,200)	–
	510,200	–	–

As at the end of the respective reporting periods, the Group's unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant and/or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

During the year ended 31 December 2008, the Group recognizsed an impairment loss of HK$510,200, reflecting the write-down in the carrying value of the above unlisted equity investment in a PRC company that has been in financial difficulties.

16. INVENTORIES

	As at 31 December		As at 30 June
	2007	2008	2009
	HK$	*HK$*	*HK$*
Raw materials and components	3,352,844	9,070,858	7,965,520
Finished goods	–	97,703	–
	3,352,844	9,168,561	7,965,520

17. TRADE AND BILLS RECEIVABLES

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Trade and bills receivables	243,607,039	197,121,422	108,096,094
Impairment	(2,206,410)	(1,953,683)	(1,725,179)
	241,400,629	195,167,739	106,370,915

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

The movements in provision for impairment of trade receivables are as follows:

	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
At 1 January	671,072	2,206,410	1,953,683
Impairment losses recognized *(note 8)*	1,710,101	369,461	–
Amount written off as uncollectible	(174,763)	(356,155)	(167,978)
Impairment losses reversed	–	(266,033)	(60,526)
At end of year/period	2,206,410	1,953,683	1,725,179

Included in the above provision for impairment of trade and bills receivables as at 31 December 2007, 31 December 2008 and 30 June 2009 is a provision for individually impaired trade receivables of HK$2,206,410, HK$1,953,683 and HK$1,725,179 with carrying amounts of HK$4,833,077, HK$3,984,986 and HK$2,702,818, respectively. The individually impaired trade receivables relate to customers that were in financial difficulties and none/only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Neither past due nor impaired	162,250,296	147,987,737	94,770,318
Less than 31 days past due	59,071,673	36,146,467	3,843,196
31 to 60 days past due	12,448,263	6,285,770	321,902
61 to 90 days past due	4,071,624	1,176,739	2,316,820
Over 90 days past due	932,106	1,539,723	4,141,040
	238,773,962	193,136,436	105,393,276

Trade and bills receivables that were neither past due nor impaired relate to a sizeable number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a sizeable number of independent debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade and bills receivables are amounts of HK$37,373,152, HK$11,340,601 and HK$22,348,800 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively, which represent discounted bills with recourse (note 24). As at 31 December 2007, trade receivables of HK$15,214,144 were pledged to secure certain banking facilities granted to the Group.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Prepayments	1,274,823	1,537,115	1,554,329
Deposits and other receivables	1,338,843	2,215,274	4,874,896
Deferred cost of revenue	–	1,580,412	775,169
	2,613,666	5,332,801	7,204,394

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default.

19. DUE FROM/(TO) A DIRECTOR

Particulars of an amount due from a director, Dr. Jack Lau, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	At end of year/ period	Maximum amount outstanding during the year	At beginning of year/ period
	HK$	*HK$*	*HK$*
Year ended 31 December 2007	–	–	–
Year ended 31 December 2008	11,511,364	12,000,000	–
Six months ended 30 June 2009	14,918,486	15,000,000	11,511,364

The balances with a director, Dr. Jack Lau, are unsecured, interest-free and have no fixed terms of repayment.

The amount due from Dr. Jack Lau was fully settled subsequent to 30 June 2009 and prior to the date of this report.

20. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Cash at banks and on hand	26,215,458	9,356,415	9,249,109
Pledged deposit	775,731	796,676	804,260
	26,991,189	10,153,091	10,053,369
Less: Pledged deposit for a licensing arrangement	(775,731)	(796,676)	(804,260)
Cash and bank balances	26,215,458	9,356,415	9,249,109

At 31 December 2007, 31 December 2008 and 30 June 2009, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$4,225,330, HK$1,731,064 and HK$424,805, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks and pledged deposit earn interest at floating rates based on daily bank deposit rates. The bank balances and the pledged deposit are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the respective reporting periods, based on the invoice date, is as follows:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Within 30 days	30,458,167	17,606,894	70,681,146
31 to 60 days	77,542,011	129,496,921	3,852,253
Over 60 days	63,180,479	5,912,550	9,764,111
	171,180,657	153,016,365	84,297,510

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Other payables	11,219,059	8,135,693	5,170,886
Accrued interest on loans from related parties and a shareholder	3,384,456	3,384,456	3,384,456
Other accruals	7,298,701	4,154,639	5,094,401
Deferred revenue	–	2,060,339	1,010,481
	21,902,216	17,735,127	14,660,224

23. LOANS FROM RELATED PARTIES AND A SHAREHOLDER

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Current:			
Related parties			
– Jack Lau Limited	15,301,397	16,751,397	21,115,677
– Mr. Heung, Lap Chi Eugene	10,864,000	10,864,000	10,864,000
	26,165,397	27,615,397	31,979,677
Non-current:			
Shareholder – Mr. Philip Wu	525,620	525,620	525,620

The loans from related parties are unsecured, bore interest at the Hong Kong dollar prime lending 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 beneficial shareholder of Jack Lau Limited, Ms. Loh, Jiah Yee Katherine who is the spouse of Dr. Jack Lau, indirectly through one or more intermediaries, has a beneficial interest in the Group. Mr. Heung, Lap Chi Eugene is a close family member of a beneficial shareholder of the Company, Ms. Leung, Yee Li Lana.

The loan from a shareholder is unsecured, bore interest at the Hong Kong dollar prime lending 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 is originally not repayable within twelve 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 related parties and a shareholder were non-interest-bearing for the year ended 31 December 2008 and the six months ended 30 June 2009.

The loans from related parties and a shareholder, and the related accrued interests were fully settled subsequent to 30 June 2009 and prior to the date of this report.

24. INTEREST-BEARING BANK BORROWINGS

	As at 31 December						As at 30 June		
	2007			2008			2009		
	Effective interest rate	*Maturity*	*HK$*	*Effective interest rate*	*Maturity*	*HK$*	*Effective interest rate*	*Maturity*	*HK$*
Bank overdrafts	8.22%	On demand	3,849,380	5.58%	On demand	4,701,191	5.34%	On demand	2,803,353
Short term bank loans	7.97% to 9.50%	2008	96,241,792	5.00% to 6.59%	2009	71,818,882	5.00% to 6.45%	2010	55,606,788
			100,091,172			76,520,073			58,410,141

An analysis of the bank borrowings that were secured by certain assets of the Group is as follows:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Short term bank loans, secured by certain assets of the Group	52,587,296	11,340,661	22,348,800
Secured by:			
Trade receivables *(note 17)*	15,214,144	–	–
Bills receivable *(note 17)*	37,373,152	11,340,661	22,348,800
	52,587,296	11,340,661	22,348,800

In addition, certain of the Group's interest-bearing bank borrowings during the Relevant Periods were secured by:

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

(ii) the pledge of certain investments owned by Dr. Jack Lau, a director of the Company, for the period from 1 January 2007 to 16 June 2008;

(iii) the pledge of a deposit of HK$5,000,000 of Dr. Jack Lau since 17 June 2008; and/or

(iv) the pledge of cash deposits and/or investments of an aggregate amount not less than HK$10 million by Increasing Grace Limited ("Increasing Grace"), a company in which a family member of Dr. Jack Lau has a significant interest.

Dr. Jack Lau, Mr. Heung, Lap Chi Eugene, Mr. Paulo Lam, a beneficial shareholder of the Company, and Increasing Grace have provided personal, joint and several, or corporate guarantees for the Group's banking facilities up to an aggregate guarantee amount of HK$133,750,000, HK$124,750,000 and HK$118,750,000 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively. The personal guarantee provided by Mr. Paulo Lam for the Group's banking facilities was fully released during the year ended 31 December 2008.

In connection with certain banking facilities of the Group during the Relevant Periods, a deed of undertaking was entered, whereby (a) Jack Lau Limited undertook not to recover certain loan amount due from Perception Digital (BVI) or re-assign the loan amount without the prior written consent of a creditor banker of the Group; and (b) Perception Digital (BVI) undertook not to declare or distribute any dividends of more than 50% of its profit (if any) for each financial year. Such undertaking is no longer required pursuant to the latest banking facilities letter issued by the relevant bank.

The pledges of deposits of and/or certain properties and/or investments owned by Dr. Jack Lau, Jack Lau Limited, Mr. Heung, Lap Chi Eugene or Increasing Grace, and all personal, joint and several, or corporate guarantees given by Dr. Jack Lau, Mr. Heung, Lap Chi Eugene and Increasing Grace for the Group's banking facilities will be released or replaced by corporate guarantees provided by our Company upon the Listing of our Company's Shares on the Stock Exchange, conditional upon, among other things, (i) certain indebtedness being repaid upon the Listing, (ii) the provision of alternative securities in favor of the relevant banks by our Group such as credit insurance policies, corporate guarantees and charges on deposits by our Group, and (iii) that the relevant bank received satisfactory evidence that the consolidated net asset value of our Group shall be not less than a certain amount.

Except for certain bank borrowings amounting to HK$68,967,277, HK$24,431,206 and HK$40,049,264 as at 31 December 2007, 31 December 2008 and 30 June 2009, respectively, which are denominated in United States dollars, all the bank borrowings of the Group are denominated in Hong Kong dollars.

25. DEFERRED TAX ASSETS/LIABILITIES

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Deferred development costs	Total
	HK$	*HK$*	*HK$*
At 1 January 2007	67,500	–	67,500
Deferred tax credited to the income statement during the year*	(67,500)	–	(67,500)
Gross deferred tax liabilities at 31 December 2007 and at 1 January 2008	–	–	–
Deferred tax charged to the income statement during the year*	171,546	269,087	440,633
Gross deferred tax liabilities at 31 December 2008 and at 1 January 2009	171,546	269,087	440,633
Deferred tax charged/(credited) to the income statement during the period*	(6,192)	527,345	521,153
Gross deferred tax liabilities at 30 June 2009	165,354	796,432	961,786

Deferred tax assets

	Depreciation in excess of related depreciation allowance	Losses available for offsetting against future taxable profits	Total
	HK$	*HK$*	*HK$*
At 1 January 2007	–	12,897,500	12,897,500
Deferred tax credited/(charged) to the income statement during the year*	78,122	(7,815,815)	(7,737,693)
Gross deferred tax assets at 31 December 2007 and at 1 January 2008	78,122	5,081,685	5,159,807
Deferred tax charged to the income statement during the year*	(78,122)	(3,163,083)	(3,241,205)
Gross deferred tax assets at 31 December 2008 and at 1 January 2009	–	1,918,602	1,918,602
Deferred tax credited to the income statement during the period*	–	156,618	156,618
Gross deferred tax assets at 30 June 2009	–	2,075,220	2,075,220

* Net deferred tax charged to the income statement during the years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 2009 amounted to HK$7,670,193, HK$3,681,838, HK$274,351 and HK$364,535, respectively (note 11).

For the purpose of the combined statement of financial position presentation, the deferred tax assets and liabilities that relate to the same taxable entity and the same taxation authority have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Net deferred tax assets recognized in the combined statement of financial position	5,159,807	1,477,969	1,113,434

26. SHARE CAPITAL AND EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The share capital balances as presented in the combined statements of financial position as at 31 December 2007, 31 December 2008 and 30 June 2009 represent the issued and fully paid share capital of Perception Digital (BVI) of HK$95,316 divided into 122,201 ordinary shares of US$0.10 each. As at 31 December 2007, 31 December 2008 and 30 June 2009, Perception Digital (BVI) had authorized share capital of US$50,000 (equivalent to HK$390,000) divided into 500,000 ordinary shares of US$0.10 each. Perception Digital (BVI) is a subsidiary of the Company, which was the direct/indirect holding company of all the other subsidiaries of the Group at the end of the respective reporting periods, as described on Page I-1 of this report.

On 17 September 2009, pursuant to the resolutions in writing of the shareholders of Perception Digital (BVI), Perception Digital (BVI) issued and allotted 4,998 shares and 4,778 shares in its share capital to Masteray Limited, a company wholly owned by Ms. Loh, Jiah Yee Katherine, and UGH Investment Holding Limited, a company wholly owned by Ms. Leung, Yee Li Lana, respectively, credited as fully paid by capitalizing portions of the Group's outstanding loans from Jack Lau Limited and Mr. Heung, Lap Chi Eugene as at 17 September 2009.

During the year ended 31 December 2007, an aggregate of 7,821 ordinary shares of Perception Digital (BVI) of US$0.1 each with a total nominal amount of HK$6,100 (the "Shares") were issued and allotted to certain entities designated by/related to/for the benefit of, Dr. Jack Lau and Mr. Chui Shing Yip, employees of the Group and also the current directors of the Company, for the purpose of providing incentives/rewards for their contributions to the success of the Group (note 9).

The cost of the Equity-settled Share-based Payment Transactions was measured by reference to the fair value of the Shares at the date at which they were granted, taking into account the terms and conditions upon which the Shares were granted. The fair value of the Shares was determined using the asset approach (adjusted book value method), with reference to the book values of the assets and liabilities of the Group.

The Company was incorporated in the Cayman Islands on 11 September 2009, with an authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each, one of which was allotted and issued nil paid to the subscriber on the same date, which was transferred to Masteray Limited on that date. Subsequently, in November 2009, an additional 131,976 shares of the Company were issued in connection with the Reorganization. On 27 November 2009, written resolutions of the shareholders of the Company were passed to approve, among other things, the increase in the authorized share capital of the Company from HK$380,000 to HK$200,000,000 by the creation of an additional 1,996,200,000 shares of HK$0.10 each and a captialisation issue. Further details of the Company's share capital and the capitalization issue are also set out in Appendix VI to the Prospectus.

27. CONTINGENT LIABILITIES

As at 31 December 2007, 31 December 2008 and 30 June 2009, neither the Group nor the Company had any significant contingent liabilities.

28. OPERATING LEASE ARRANGEMENTS

The Group leases its office premises and certain of its office equipment under operating lease arrangements with leases negotiated for terms ranging from one to five years.

At the end of the respective reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Within one year	1,394,861	1,036,017	2,323,838
In the second to fifth years, inclusive	285,786	276,364	244,959
	1,680,647	1,312,381	2,568,797

29. RELATED PARTY TRANSACTIONS

(a) In addition to notes 7, 9, 19, 22, 23, 24 and 26 under Section II of this report, the Group had the following material transactions with related parties during the Relevant Periods and the six months ended 30 June 2008:

		Year ended 31 December		Six months ended 30 June	
		2007	**2008**	**2008**	**2009**
	Notes	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Management consultancy fee charged by a related company	*(i)*	4,189,000	4,803,240	2,430,000	453,720
Management consultancy fee charged by a director	*(ii)*	120,000	165,000	90,000	–
		4,309,000	4,968,240	2,520,000	453,720

The above related party transactions will be discontinued subsequent to the listing of the shares of the Company on the Stock Exchange.

(i) The management consultancy fee was charged by Jack Lau Limited based on terms agreed between the two parties.

(ii) The management consultancy fee was charged by Dr. Tsui Chi Ying based on terms agreed between the two parties.

(b) Compensation of key management personnel of the Group, including amounts paid to the Company's directors, is as follows:

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Short term employee benefits	6,508,846	7,366,142	3,042,820	2,841,167
Equity-settled share-based payment expense	6,100	–	–	–
Post-employment benefits	39,000	55,000	25,000	29,000
	6,553,946	7,421,142	3,067,820	2,870,167

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the respective reporting periods are as follows:

Financial assets

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Loans and receivables:			
Rental deposits	382,599	571,154	–
Trade and bills receivables	241,400,629	195,167,739	106,370,915
Financial assets included in prepayments, deposits and other receivables	1,338,843	2,215,274	4,874,896
Due from a director	–	11,511,364	14,918,486
Pledged deposit	775,731	796,676	804,260
Cash and bank balances	26,215,458	9,356,415	9,249,109
	270,113,260	219,618,622	136,217,666
Available- for-sale financial asset:			
Available-for-sale investment	510,200	–	–
Total	270,623,460	219,618,622	136,217,666

Financial liabilities

	As at 31 December		As at 30 June
	2007	**2008**	**2009**
	HK$	*HK$*	*HK$*
Financial liabilities at amortized cost:			
Trade payables	171,180,657	153,016,365	84,297,510
Financial liabilities included in other payables and accruals	20,546,960	15,163,715	13,339,936
Due to a director	8,753,509	–	–
Loans from related parties	26,165,397	27,615,397	31,979,677
Loan from a shareholder	525,620	525,620	525,620
Interest-bearing bank borrowings	100,091,172	76,520,073	58,410,141
	327,263,315	272,841,170	188,552,884

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loans from related parties and a shareholder, and cash and bank balances. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, rental deposits, financial assets included in deposits and other receivables, pledged deposit, financial liabilities included in other payables and accruals, and balances with a director, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Interest risk

The 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. The Group does not use derivative financial instruments to hedge its interest rate risk. The Group mitigates this risk by monitoring closely the movements in interest rates and reviewing its available credit facilities and their utilization regularly.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		HK$
Year ended 31 December 2007		
Hong Kong dollar	25	(129,815)
Hong Kong dollar	(25)	129,815
United States dollar	25	(185,826)
United States dollar	(25)	185,826
Year ended 31 December 2008		
Hong Kong dollar	25	(130,222)
Hong Kong dollar	(25)	130,222
United States dollar	25	(61,078)
United States dollar	(25)	61,078
Six months ended 30 June 2009		
Hong Kong dollar	25	45,902
Hong Kong dollar	(25)	(45,902)
United States dollar	25	100,123
United States dollar	(25)	(100,123)

Foreign currency risk

The Group has transactional currency exposures. Such exposures primarily arise from revenue or income generated, cost or expenses incurred, and certain bank and other borrowings denominated in currencies other than the Group's operating units' functional currency. For the Group's operating units' that have United States dollar as their functional currency, their foreign currency transactions during the Relevant Periods, and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 31 December 2007, 31 December 2008 and 30 June 2009 were mainly denominated in Hong Kong dollars. As the United States dollar ("US$") is pegged to the Hong Kong dollar ("HK$") within a narrow band, the Group does not expect any significant movements in the US$/HK$ exchange rate. Accordingly, management considers the Group's foreign currency risk exposure to be low.

Credit risk

The Group primarily trades with recognized and creditworthy third parties. It is the Group's policy that advanced payments are generally required for new customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group primarily trades with recognized and creditworthy third parties, there is normally no requirement for collateral.

The credit risk of the Group's financial assets, which comprise trade and bills receivables, cash and bank balances, an available-for-sale investment, rental deposits, financial assets included in deposits and other receivables, an amount due from a director and a pledged deposit, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At 31 December 2007, 31 December 2008 and 30 June 2009, the Group has certain concentration of credit risk as 66.7%, 83.9% and 68.4%, respectively, of the Group's trade and bills receivables were due from the Group's largest customer and 86.4%, 94.7% and 83.2%, respectively, of the Group's trade and bills receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and financial assets included in deposits and other receivables are disclosed in notes 17 and 18 under Section II of this report.

Liquidity risk

The Group operates with a working capital deficit and the liquidity of the Group is primarily dependent on funds generated from operations and external financing. Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The 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. The Group aims to maintain sufficient cash and bank balances and credit lines to meet its liquidity requirements. The Group finances it working capital requirements through a combination of funds generated from operations and bank and other borrowings/advances.

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial liabilities and financial assets (for example, trade and bills receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the respective reporting periods, based on the contractual undiscounted payments, is as follows:

	31 December 2007			
	No fixed terms of repayment/ on demand	**Less than 1 year**	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables	–	171,180,657	–	171,180,657
Financial liabilities included in other payables and accruals	–	16,689,076	–	16,689,076
Due to a director	8,753,509	–	–	8,753,509
Loans from related parties and a shareholder	29,404,324	–	671,149	30,075,473
Interest-bearing bank borrowings	4,322,808	98,039,946	–	102,362,754
	42,480,641	285,909,679	671,149	329,061,469

	31 December 2008			
	No fixed terms of repayment/ on demand	**Less than 1 year**	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables	–	153,016,365	–	153,016,365
Financial liabilities included in other payables and accruals	–	11,375,321	–	11,375,321
Loans from related parties and a shareholder	30,854,324	–	671,149	31,525,473
Interest-bearing bank borrowings	4,986,935	72,994,339	–	77,981,274
	35,841,259	237,386,025	671,149	273,898,433

	30 June 2009			
	No fixed terms of repayment/ on demand	**Less than 1 year**	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Trade payables	–	84,297,510	–	84,297,510
Financial liabilities included in other payables and accruals	–	9,554,577	–	9,554,577
Loans from related parties and a shareholder	35,218,604	–	671,149	35,889,753
Interest-bearing bank borrowings	2,950,529	56,479,336	–	59,429,865
	38,169,133	150,331,423	671,149	189,171,705

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Group comprises all components of shareholders' equity.

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

At the end of the respective reporting periods, the carrying amounts of the Group's financial assets and liabilities approximate to their fair values, except for an unlisted equity investment with a carrying amount of HK$510,200 as at 31 December 2007, in which its fair value could not be reliably measured and was stated at cost less impairment as further detailed in note 15 under Section II of this report.

III. SUBSEQUENT EVENTS

The companies now comprising the Group underwent and completed a Reorganization on 30 November 2009 in preparation for the listing of the shares of the Company on the Stock Exchange. Further details of the Reorganization are set out in the section headed "Corporate Reorganization" in Appendix VI to the Prospectus. As a result of the Reorganization, the Company became the holding company of Perception Digital (BVI).

On 27 November 2009, written resolutions of the shareholders of the Company were passed to approve the matters set out in the section headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in Appendix VI to the Prospectus.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

The following unaudited pro forma financial information prepared in accordance with Paragraph 7.31 of the GEM Listing Rules is for illustrative purposes only, and is set out below to provide the prospective investors with further information about (i) how the Share Offer might have affected the combined net tangible liabilities of our Group as if the Share Offer had occurred on 30 June 2009; and (ii) how the Share Offer might have affected the forecast earnings per share of our Group for the year ending 31 December 2009 as if the Share Offer had taken place on 1 January 2009. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial results and position of financial periods concerned.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of our Group have been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer on the combined net tangible liabilities of our Group as at 30 June 2009 as if they had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of our Group have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the financial position of our Group as at 30 June 2009 or any future date following the Share Offer.

	Combined net tangible liabilities of our Group attributable to equity holders of our Company as at 30 June 2009	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted combined net tangible assets of our Group**	**Unaudited pro forma adjusted combined net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK cents*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on an Offer Price of HK$0.73 per Share	(38,564)	89,906	51,342	8.6
Based on an Offer Price of HK$0.67 per Share	(38,564)	81,176	42,612	7.1

Notes:

1. The combined net tangible liabilities of our Group as at 30 June 2009 have excluded the deferred development costs of approximately HK$6,316,000 from the combined net liabilities of our Group attributable to equity holders of our Company amounting to HK$32,248,000, both are extracted from the Accountants' Report set forth in Appendix I to this prospectus.

2. The estimated net proceeds from the Share Offer of 150,000,000 new Shares are based on the Offer Price of HK$0.73 and HK$0.67 per Share, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Share Offer payable to us as described in Note (2) and on the basis that a total of 600,000,000 Shares were in issue (including Shares in issue as at the date of this prospectus, those Shares to be issued under the Capitalization Issue and those Shares to be issued pursuant to the Share Offer). No account has been taken of any Shares which may fall to be issued upon the exercised of the Over-allotment Option.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer on the earnings per Share of our Group for the year ending 31 December 2009 as if it had taken place on 1 January 2009. The unaudited pro forma forecast earnings per Share of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of our Group for the year ending 31 December 2009 or for any future periods.

The unaudited forecast combined profit attributable to equity holders of our Company for the year ending 31 December 2009 is extracted from the paragraph headed "Profit forecast" under the section headed "Financial information" in this prospectus and the bases and assumptions thereof are summarized in Appendix III to this prospectus.

Unaudited forecast combined profit attributable to equity holders of our Company for the year ending 31 December 2009 *(note 1)*	not less than HK$25 million
Unaudited pro forma forecast earnings per Share for the year ending 31 December 2009 *(note 2)*	not less than HK4.17 cents

Notes:

1. The unaudited forecast combined profit attributable to equity holders of our Company for the year ending 31 December 2009 prepared by our Directors is based on, in the absence of unforeseen circumstances, the combined results of our Group for the six months ended 30 June 2009, the unaudited combined results of our Group for the four months ended 31 October 2009 and a forecast of the combined results of our Group for the two months ending 31 December 2009. The estimate has been prepared on the basis of the accounting policies and calculations prepared on a basis consistent in all material respects with those currently adopted by our Group as summarized in the Accountants' Report set forth in Appendix I to this prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share is based on the unaudited forecast combined profit attributable to equity holders of our Company for the year ending 31 December 2009, and on the assumption that our Company had been listed since 1 January 2009, and a total of 600,000,000 Shares have been in issue and outstanding during the entire year and the Over-allotment Option would not be exercised.

The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the inclusion in this prospectus.

ERNST & YOUNG
安永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

4 December 2009

The Directors
Perception Digital Holdings Limited

Dear Sirs,

We report on the unaudited pro forma adjusted combined net tangible assets and unaudited pro forma forecast earnings per share (the "Unaudited Pro Forma Financial Information") of Perception Digital Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the placing and public offer of shares in the capital of the Company might have affected the relevant financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 4 December 2009 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective responsibilities of the Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 or any future dates; or
- the forecast earnings per share of the Group for the year ending 31 December 2009 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;

(b) such bases are consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2009 is set out in the paragraph headed "Profit forecast" under the section headed "Financial information" in this prospectus.

A. BASES

The Directors have prepared the forecast of combined profit attributable to equity holders of the Company for the year ending 31 December 2009 on the basis of the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the four months ended 31 October 2009 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarized in Appendix I to this prospectus.

B. ASSUMPTIONS

The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which the Group currently operates or which are otherwise material to the Group's business;
- there will be no changes in legislation, regulations or rules in the PRC or any other country or territory in which the Group operates or with which the Group has arrangements or agreements, which materially adversely affect its business;
- there will be no material change in the bases or rates of taxation in the PRC or any other country or territory in which the Group operates, except as otherwise disclosed in this prospectus;
- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing; and
- our operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

Set out below is texts of letters received by the Directors from (i) Ernst & Young, the reporting accountants of our Company, and (ii) the Sponsor, prepared for the purpose of inclusion in this prospectus in connection with the profit forecast of our Group for the year ending 31 December 2009.

(i) Letter from Ernst & Young

Set out below is the text of a letter from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending 31 December 2009.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

4 December 2009

The Directors
Perception Digital Holdings Limited
Quam Capital Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the combined profit attributable to equity holders of Perception Digital Holdings Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ending 31 December 2009 (the "Profit Forecast") as set out in the paragraph headed "Profit forecast" under the section headed "Financial information" in the prospectus of the Company dated 4 December 2009 (the "Prospectus") for which the directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forceasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the four months ended 31 October 2009 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2009.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting polices normally adopted by the Group as set out in our Accountants' Report dated 4 December 2009, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from Sponsor

Set out below is the text of a letter from the Sponsor, Quam Capital Limited, for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending 31 December 2009.

Quam CAPITAL 華富嘉洛企業融資

Quam Capital Limited

A Member of The Quam Group

Room 3208, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

4 December 2009

The Directors
Perception Digital Holdings Limited

Dear Sirs,

We refer to the forecast of the combined profit attributable to equity holders of Perception Digital Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ending 31 December 2009 (the "Profit Forecast") as set out in the paragraph headed "Profit forecast" under the section headed "Financial information" in the prospectus of the Company dated 4 December 2009.

The Profit Forecast, for which the directors of the Company (the "Directors") are solely responsible, has been prepared based on the audited combined results of the Group for the six months ended 30 June 2009, the unaudited combined results of the Group for the four months ended 31 October 2009 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2009.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered, and relied upon, the letter dated 4 December 2009 addressed to you and us from Ernst & Young regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Forecast, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
QUAM CAPITAL LIMITED
Gary Mui
Executive Director
Head of IPO and Capital Market

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests of our Group.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

4 December 2009

The Directors
Perception Digital Holdings Limited
Unit 8A, 8/F
Shaw House
Lot 200
Clear Water Bay
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties of Perception Digital Holdings Limited ("the Company") and its subsidiaries (together referred to as "the Group") in the People's Republic of China (referred to as the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing the capital values of such properties as at 30 September 2009 (referred to as the "valuation date").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

BASIS OF VALUATION

The valuation of such properties is our opinion of the market value which we would define as intended to mean: "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

The properties are valued by the comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties on the open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exists, unless noted in the report.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

TITLESHIP INVESTIGATION

For the properties leased to the Group, we have been provided with copies of tenancy agreements. However, we have not inspected the originals of these documents to ascertain if there are any amendments on the copies handed to us.

In our course of valuation, we have relied upon the legal opinion given by King & Wood PRC Lawyers (the "Legal Adviser") on 4 December 2009 in relation to the legal title to the properties under valuation.

Any legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal titles to the properties set out in this report.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Group on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of those properties in which the Group has valid interests. Floor areas of the property stated herein are ascertained by us by scaling off the registered floor plans of the subject development.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that all the properties are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Since the property is located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised his professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

OPINION OF VALUE

Valuation figures of the properties are shown in the attached summary of valuation and their respective valuation certificates.

For the properties that are licensed to or rented by the Group from independent third parties under licenses or tenancy agreements, they have no commercial values due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent or short term nature.

REMARKS

Our valuation has been prepared in accordance with the generally accepted valuation procedures and in compliance with Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

The property values are stated in Hong Kong Dollars (HK$) and Chinese Renminbi (RMB), the lawful currency of Hong Kong and the PRC, for properties located in Hong Kong and the PRC respectively.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED
K. K. Ip *BLE, LLD*
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC and Hong Kong since 1992.

SUMMARY OF VALUATION

No.	Property	Market value as at 30 September 2009
Group I – Property interests licensed to the Group in Hong Kong		
1.	Unit 8A, 8/F Shaw House Lot 220 Clearwater Bay Road Kowloon Hong Kong	No commercial value
2.	Unit 8C, 8/F Shaw House Lot 220 Clearwater Bay Road Kowloon Hong Kong	No commercial value
Group II – Property interests rented by the Group in the PRC		
3.	North Wing on 7/F West Block IER Building No. 15 of Gaoxin Nan 7th Road Nanshan District Shenzhen Guangdong Province The PRC	No commercial value
4.	Level 2 and Zone A of Level 1 Block 3 Boju Qianneng Industrial Park Lisongmin 3rd Industrial District Gongming Office Guangming New District Shenzhen Guangdong Province The PRC	No commercial value

No.	Property	Market value as at 30 September 2009
5.	Room 702 Shiyida Industrial Park Baolong 6th Road Longbao Zone Longgang Jiedao Longgang District Shenzhen Guangdong Province The PRC	No commercial value
6.	Western part of Zone D on Level 2 Podium of Blocks 3 and 4 Yinquan Garden Western side of Renmin Bei Road Minzhi Street Baoan District Shenzhen Guangdong Province The PRC	No commercial value
	Total:	**No commercial value**

VALUATION CERTIFICATES

Group I – Property interests licensed to the Group in Hong Kong

No.	Property	Description and occupancy	Market value as at 30 September 2009
1.	Unit 8A, 8/F Shaw House Lot 220 Clearwater Bay Road Kowloon Hong Kong	The property comprises a unit within an eleven-storey office/car park building completed in or about 1996. The gross floor area of the property is approximately 823.67 square metres (approximately 8,866 square feet). The property is held under a sub-license agreement dated 15 May 2009 between Hong Kong University of Science and Technology R and D Corporation Limited as licensor and Perception Digital Limited ("PD (HK)", a wholly-owned subsidiary of the Company) as licensee for a term of 1 year from 1 April 2009 to 31 March 2010 at a monthly fee of HK$116,258. The property is currently occupied by PD (HK) as an office.	No commercial value

Notes:

(i) Shaw Brothers (HK) Limited is the registered owner of the property.

(ii) According to a renewal offer dated 1 April 2009, Shaw Brothers (HK) Limited agreed to license the use of the property to Hong Kong University of Science and Technology R and D Corporation Limited for a term of 1 year from 1 April 2009 to 31 March 2010.

No.	Property	Description and occupancy	Market value as at 30 September 2009
2.	Unit 8C, 8/F Shaw House Lot 220 Clearwater Bay Road Kowloon Hong Kong	The property comprises a unit within an eleven-storey office/car park building completed in or about 1996. The gross floor area of the property is approximately 189.89 square metres (approximately 2,044 square feet). The property is held under a license agreement dated 14 April 2008 between Shaw Brothers (Hong Kong) Limited as licensor and PD (HK) as licensee for a term commencing from 14 April 2008 at a monthly rent of HK$16,352 exclusive of management fee, government rates and rents and other service charges. The license can be terminated prior to one month's notice. The license is not assignable. The property is currently occupied by PD (HK) as an office.	No commercial value

Group II – Property interests rented by the Group in the PRC

No.	Property	Description and occupancy	Market value as at 30 September 2009
3.	North Wing on 7/F West Block IER Building No. 15 of Gaoxin Nan 7th Road Nanshan District Shenzhen Guangdong Province The PRC	The property comprises a unit within a 9-storey building completed in or about 2002. The gross floor area of the property is approximately 800 square metres (approximately 8,611 square feet). The property is held under a lease agreement dated 19 August 2009 between 深港產學研基地 (IER) as lessor and Perception Digital Technology (Shenzhen) Limited ("PD Shenzhen", a wholly-owned subsidiary of the Company) as lessee for a term of 1 year from 1 August 2009 to 31 July 2010 at a monthly rent of RMB32,000 exclusive of management fee and other service charges. The lease is not assignable. The property is currently occupied by PD Shenzhen as an office.	No commercial value

Note:

(i) Opinions of the Legal Adviser are summarized as follows:

(a) The lease agreement is legally binding upon both parties.

(b) The lease agreement has been registered at the property leasing administration authority.

(c) The lessor has obtained legal title to the property. PD Shenzhen has the right to occupy and use the property within the term of the lease agreement.

No.	Property	Description and occupancy	Market value as at 30 September 2009
4.	Level 2 and Zone A of Level 1 Block 3 Boju Qianneng Industrial Park Lisongmin 3rd Industrial District Gongming Office Guangming New District Shenzhen Guangdong Province The PRC	The property comprises 2 units within a 5-storey building completed in or about 2007. The gross floor area of the property is approximately 345 square metres (approximately 3,714 square feet). The property is held under a sub-lease agreement dated 27 August 2009 between 深圳市福瑞祥電器有限公司 (Shenzhen Furuixiang Electrical Company Limited) as lessor and PD Shenzhen as lessee for a term of 4 months and 13 days from 19 August 2009 to 31 December 2009 at a monthly rent of RMB4,485 exclusive of management fee and other service charges. The lease is not assignable. The property is currently occupied by PD Shenzhen as an office.	No commercial value

Note:

(i) Opinions of the Legal Adviser are summarized as follows:

(a) The sub-lease agreement is legal, valid and binding.

(b) The sub-lease agreement has been registered at the property leasing administration authority.

(c) 深圳市博聚潛能開發有限責任公司(Shenzhen Boju Qianneng Development Company Limited) has obtained legal title to the property.

(d) According to a lease agreement dated 18 December 2008 between 深圳市博聚潛能開發有限責任公司 (Shenzhen Boju Qianneng Development Company Limited) and Shenzhen Furuixiang Electrical Company Limited, the latter has the right to sub-lease the property to PD Shenzhen.

(e) PD Shenzhen has the right to occupy and use the property in accordance with the sub-lease agreement.

No.	Property	Description and occupancy	Market value as at 30 September 2009
5.	Room 702 Shiyida Industrial Park Baolong 6th Road Longbao Zone Longgang Jiedao Longgang District Shenzhen Guangdong Province The PRC	The property comprises a unit within a 7-storey building completed in or about 2009. The gross floor area of the property is approximately 30 square metres (approximately 323 square feet). The property is held under a lease agreement dated 22 June 2009 between 深圳市實益達科技股份有限公司 (Shenzhen Shiyida Technology Holdings Limited) as lessor and PD Shenzhen as lessee for a term of 3 years from 17 June 2009 to 16 June 2012 at a monthly rent of RMB500 exclusive of management fee and other service charges. The lease is not assignable. The property is currently occupied by PD Shenzhen as an office.	No commercial value

Note:

(i) Opinions of the Legal Adviser are summarized as follows:

(a) The lease agreement has been registered at the property leasing administration authority.

(b) No title document has been provided to confirm lessor's legal title to the property. There exists a risk that PD Shenzhen will be required to move out from the property if the lessor has not obtain legal title to the property.

No.	Property	Description and occupancy	Market value as at 30 September 2009
6.	Western part of Zone D on Level 2 Podium of Blocks 3 and 4 Yinquan Garden Western side of Renmin Bei Road Minzhi Street Baoan District Shenzhen Guangdong Province The PRC	The property comprises a unit within a 3-storey building completed in or about 2000. The gross floor area of the property is approximately 60 square metres (approximately 646 square feet). The property is held under a lease agreement dated 22 December 2008 between 深圳市寶安龍華龍泉酒店有限公司 (Shenzhen Baoan Longhua Longquan Hotel Company Limited) as lessor and PD Shenzhen as lessee for a term of 1 year from 10 December 2008 to 10 December 2009 at a monthly rent of RMB1,800 exclusive of management fee and other service charges. The lease is not assignable. The property is currently occupied by PD Shenzhen as an office.	No commercial value

Note:

(i) Opinions of the Legal Adviser are summarized as follows:

(a) The lease agreement is legal, valid and binding.

(b) The lease agreement has been registered at the property leasing administration authority.

(c) The lessor has obtained legal title to the property. PD Shenzhen has the right to occupy and use the property within the term of the lease agreement.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 September 2009 under the Companies Law, Cap 22 (Law 3 of 1961), as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Memorandum of Association (the "**Memorandum**") and the Articles of Association (the "**Articles**") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 11 September 2009. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being 1 entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any share holder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof.

All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly. Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has applied for and expects to receive an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by either an order of the Court or by a special resolution of its members; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 September 2009. We have applied for the Certificate of Incorporation of a non-Hong Kong Company under Part XI of the Companies Ordinance on 25 November 2009. Ms. Wong Yuk Hing, Juliana, our company secretary, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. Our principal place of business in Hong Kong is located at Flat A, 8th Floor, Shaw House Lot 220, Clear Water Bay Road, Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises of a memorandum and articles of association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation, the authorized share capital of our Company was HK$380,000 divided into 3,800,000 Shares of HK$0.10 each. On 11 September 2009, one Share was allotted and issued as nil paid share to Codan Trust Company (Cayman) Limited.

(b) On 11 September 2009, the one nil paid Share held by Codan Trust Company (Cayman) Limited was transferred to Masteray.

(c) Pursuant to a resolution passed in a meeting of Directors on 27 November 2009, our Company issued and allotted, at nil paid, 36,834 Shares to Swanland, 41,201 Shares to UGH, 15,786 Shares to Masteray, 15,895 Shares to Notable Success, 3,491 Shares to Excel Direct, 873 Shares to Rochdale, 4,888 Shares to Glory Wood Limited, 1,250 Shares to Starnet Development Overseas Limited, 1,000 Shares to HKUST R&D, 781 Shares to Capital Gain (H.K.) Ltd., 803 Shares to ExcelStor Great Wall Technology Ltd., 781 Shares to Thorough Bred Limited, 781 Shares to Tritec Limited, 688 Shares to Wellcorp Limited, 1,650 Shares to Tang Tai Kwan, Jimmy, 1,650 Shares to Yung Chi Wai, 781 Shares to Yu Wong, Yin Fun, 781 Shares to Wong Yuen Mee, 469 Shares to Dr. Wu Po Him, Philip, 350 Shares to Dr. Curtis Chih-shan Ling, 350 Shares to Professor Ko Ping Keung, 350 Shares to Professor Charles Giona Sodini, 313 Shares to Cheng Miu Wah, Rita and 230 Shares to Chi Hung Hui.

(d) On 27 November 2009, Shareholders' resolutions were passed to approve, among other things, (i) the increase of authorized share capital of our Company and (ii) the Capitalization Issue.

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

Immediately following completion of the Share Offer and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK$200,000,000 divided into 2,000,000,000 Shares, of which 600,000,000 Shares will be issued fully paid or credited as fully paid, and 1,400,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009" in this appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph headed "Changes in share capital of our Company", there has been no alteration in the share capital of our Company since incorporation.

3. Written resolutions of all the Shareholders of our Company passed on 27 November 2009

Pursuant to the written resolutions of all the Shareholders of our Company, which were passed on 27 November 2009:

(a) conditional on (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Share Offer, the Capitalization Issue, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters)) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise, in each case, on or before the day falling 30 days after the date of this prospectus:

(i) the Share Offer and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be alloted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;

(ii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify or amend the Share Option Scheme from time to time as may be acceptable, or not objected by, or requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

(b) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make or grant an offer or agreement, or grant securities or options which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue (as defined below), or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription or conversion rights attached to any warrants of our Company if any or pursuant to the exercise of options which have been granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalization Issue but before any exercise of the Over-allotment Option;

For the purpose of this paragraph, "Rights Issue" means an offer of shares in the capital of our Company, or offer or issue of warrants, options or other securities giving rights to subscribe to shares in the capital of our Company open for a period fixed by our Directors to holders of Shares in our Company on the register on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

(c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalization Issue but before the exercise of the Over-allotment Option;

(d) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (b) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (c) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the Share Offer and the Capitalization Issue but before the exercise of the Over-allotment Option was approved;

(e) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorized to allot and issue a total of 449,868,023 Shares, by way of capitalization of the sum of HK$44,986,802.30 standing to the credit of the share premium account of our Company, credited as fully paid at par to the Shareholders as appearing on the register of members of our Company on the date of this prospectus; and

(f) the authorized share capital of our Company be increased from HK$380,000 to HK$200,000,000 by the creation of 1,996,200,000 Shares of HK$0.10 each; and

(g) the Articles be adopted in substitution for and to the exclusion of the then existing articles of association of our Company.

Each of the general mandates referred to in paragraphs (b), (c) and (d) above will remain in effect until whichever is the earliest of:

(1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our shareholders in a general meeting, either unconditionally or subject to conditions;

(2) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(3) the time when such mandate is varied or revoked by an ordinary resolution of our shareholders in a general meeting.

4. Corporate Reorganization

In order to rationalize our structure and prepare for the Listing, our Company has undertaken several restructuring steps which involve the following:

(a) On 11 September 2009, our Company was incorporated in the Cayman Islands as an exempted company and the holding company of our Group. As at the date of incorporation, our Company had an authorized share capital of HK$380,000 comprising 3,800,000 ordinary shares of HK$0.10 each. One Share was allotted and issued as nil paid share by our Company to Codan Trust Company (Cayman) Limited.

(b) On 11 September 2009, the one nil paid Share held by Codan Trust Company (Cayman) Limited was transferred to Masteray.

(c) On 17 September 2009, pursuant to the resolutions in writing of all shareholders of PD (BVI), PD (BVI) issued and allotted 4,998 shares and 4,778 shares in its share capital to Masteray and UGH, a company wholly-owned by Ms. Leung, Yee Li Lana, the spouse of Mr. Heung, Lap Chi Eugene who is also a director of UGH, respectively, credited as fully paid by capitalizing portions of the outstanding balances of JL Limited and Mr. Heung, Lap Chi Eugene with PD (BVI) as at 17 September 2009.

(d) Pursuant to a resolution passed in a meeting of Directors on 27 November 2009, our Company issued and allotted, at nil paid, 36,834 Shares to Swanland, 41,201 Shares to UGH, 15,786 Shares to Masteray, 15,895 Shares to Notable Success, 3,491 Shares to Excel Direct, 873 Shares to Rochdale, 4,888 Shares to Glory Wood Limited, 1,250 Shares to Starnet Development Overseas Limited, 1,000 Shares to HKUST R&D, 781 Shares to Capital Gain (H.K.) Ltd., 803 Shares to ExcelStor Great Wall Technology Ltd., 781 Shares to Thorough Bred Limited, 781 Shares to Tritec Limited, 688 Shares to Wellcorp Limited, 1,650 Shares to Tang Tai Kwan, Jimmy, 1,650 Shares to Yung Chi Wai, 781 Shares to Yu Wong, Yin Fun, 781 Shares to Wong Yuen Mee, 469 Shares to Dr. Wu Po Him, Philip, 350 Shares to Dr Curtis Chih-shan Ling, 350 Shares to Professor Ko Ping Keung, 350 Shares to Professor Charles Giona Sodini, 313 Shares to Cheng Miu Wah, Rita and 230 Shares to Chi Hung Hui.

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

(f) Conditional upon the share premium account of our Company being credited as a result of the Share Offer, the sum of HK$44,986,802.30 will be capitalized and applied in paying up in full at par 449,868,023 Shares for allotment and issue of 125,555,506 Shares to Swanland, 140,441,232 Shares to UGH, 53,812,910 Shares to Masteray, 54,181,048 Shares to Notable Success, 11,899,719 Shares to Excel Direct, 2,975,782 Shares to Rochdale, 16,661,652 Shares to Glory Wood Limited, 4,260,856 Shares to Starnet Development Overseas Limited, 3,408,685 Shares to HKUST R&D, 2,662,183 Shares to Capital Gain (H.K.) Ltd., 2,737,174 Shares to ExcelStor Great Wall Technology Ltd., 2,662,183 Shares to Thorough Bred Limited, 2,662,183 Shares to Tritec Limited, 2,345,175 Shares to Wellcorp Limited, 5,624,330 Shares to Tang Tai Kwan, Jimmy, 5,624,330 Shares to Yung Chi Wai, 2,662,183 Shares to Yu Wong, Yin Fun, 2,662,183 Shares to Wong Yuen Mee, 1,598,673 Shares to Dr. Wu Po Him, Philip, 1,193,040 Shares to Dr Curtis Chih-shan Ling, 1,193,040 Shares to Professor Ko Ping Keung, 1,193,040 Shares to Professor Charles Giona Sodini, 1,066,918 Shares to Cheng Miu Wah, Rita and 783,998 Shares to Chi Hung Hui, and such Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares of our Company.

5. Changes in share capital of the subsidiaries of our Company

Subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Changes in share capital of the subsidiaries of our Company

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) On 28 June 2007, 4,888 and 2,933 shares of US$0.10 each in the share capital of PD (BVI) were issued and allotted to Glory Wood Limited and Masteray, respectively.

(b) On 17 August 2007, Swanland transferred 7,856, 3,491 and 873 shares of US$0.10 each in the share capital of PD (BVI) to Masteray, Excel Direct and Rochdale, respectively.

(c) On 17 September 2009, 4,998 and 4,778 shares of US$0.10 each in the share capital of PD (BVI) were issued and allotted to Masteray and UGH, respectively, by way of capitalization of certain portion of loans advanced by JL Limited and Mr. Heung, Lap Chi Eugene to PD (BVI).

(d) On 30 November 2009, all the then existing shareholders of PD (BVI) transferred all of their shareholdings in PD (BVI) to our Company pursuant to a share transfer agreement dated 30 November 2009 between our Company and each of the then existing shareholders of PD (BVI).

Save as mentioned in the paragraph headed "Corporate Reorganization" in this Appendix and as described in this paragraph, there have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listing is on the GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of our Company passed on 27 November 2009 by all the Shareholders of our Company, a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on GEM) with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue or to be issued immediately following the completion of the Share Offer (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the earliest of: (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting whichever shall first occur; details of which have been described above in the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 27 November 2009".

(ii) Source of funds

Any repurchases of Shares by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association, GEM Listing Rules and the Companies Law. We may not repurchase our own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by our Company may be made out of funds legally permitted to be utilized in this connection, including profits of our Company or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorized by the Articles of Association of our Company and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be purchased must be paid out of profits of our Company or out of our Company's share premium account, or if so authorized by the Articles of Association of our Company and subject to the provisions of the Companies Law, out of capital.

(iii) Shares to be repurchased

The GEM Listing Rules provide that the Shares which are proposed to be repurchased by our Company must be fully-paid up.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on our Company's working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules) currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to any repurchase mandate.

Our Company has not made any repurchases of our owns securities in the past six months.

No connected person (as defined in the GEM Listing Rules) has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if any repurchase mandate is exercised.

FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) a deed of undertaking dated 17 September 2009 entered into between JL Limited and UGH in favour of PD (BVI) pursuant to which JL Limited and UGH undertake to, among other things, bear certain expenses in connection with the Listing;

(b) a deed of confirmation dated 30 September 2009 entered into by JL Limited in favour of PD (BVI) pursuant to which JL Limited confirms, among other things, the outstanding principal amount of the loans made by JL Limited to PD (BVI) as at the date of the deed;

(c) a deed of confirmation dated 31 October 2009 entered into by Dr. Wu Po Him, Philip in favour of PD (BVI) pursuant to which Dr. Wu Po Him, Philip confirms, among other things, the outstanding principal amount of a loan made by him to PD (BVI) as at the date of the deed;

(d) a share transfer agreement dated 30 November 2009 entered into between PD (BVI), our Company and the shareholders of PD (BVI), namely, Masteray, Swanland, Excel Direct, Rochdale, UGH, Notable Success, Glory Wood Limited, Starnet Development Overseas Limited, HKUST R&D, ExcelStor Great Wall Technology Ltd., Capital Gain (H.K.) Ltd., Thorough Bred Limited, Tritec Limited, Wellcorp Limited, Dr. Wu Po Him, Philip, Tang Tai Kwan, Jimmy, Yuy Chi Wai, Wong Yuen Mee, Yu Wong, Yin Fun, Prof. Ko Ping Keung, Dr. Curtis Chih-Shan Ling, Prof. Charles Giona Sodini, Cheng Miu Wah, Rita and Chi Hung Hui (together the "**PD (BVI) Shareholders**"), pursuant to which the PD (BVI) Shareholders transferred their respective shareholdings in PD (BVI) in consideration of the crediting as fully-paid the then nil-paid shares in the share capital of our Company held by each of the PD (BVI) Shareholders.

(e) a deed of indemnity dated 30 November 2009 entered into between the Controlling Shareholders and our Company pursuant to which each of the Controlling Shareholders has given certain indemnities in favor of our Group containing, among others, the indemnities referred to under the sub-paragraph headed "The deed of indemnity dated 30 November 2009" under the paragraph headed "Other information" in this Appendix;

(f) a deed of non-competition dated 30 November 2009 entered into between the Controlling Shareholders and our Company pursuant to which each of the Controlling Shareholders has given certain undertaking and covenants in favour of our Group referred to under the paragraph headed "Non-competition undertaking" in the section headed "Relationship with Controlling Shareholders" in this prospectus;

(g) a corporate investor agreement dated 2 December 2009 entered into between Kingbo Investments Limited, our Company and the Lead Manager, pursuant to which Kingbo Investments Limited agreed to subscribe for such number of Shares as is equal to HK$18 million divided by the Offer Price (rounded down to the nearest board lot of 5,000 Shares) in the Placing;

(h) the Underwriting Agreement dated 3 December 2009 entered into between, among others, our Company, the Sponsor, the Lead Manager and the Underwriters relating to the Share Offer.

2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, members of our Group had registered the following trademarks:

Trademark	Place of registration	Class(1)	Registration number	Registration date	Expiry date
PD	HK	9	301321226	8 April 2009	7 April 2019
PD	HK	9	301316998	1 April 2009	31 March 2019
	PRC	9	3153881	14 June 2003	13 June 2013
Humming Search	PRC	9	3153879	14 June 2003	13 June 2013

As at the Latest Practicable Date, members of our Group had applied for registration of the following trademarks:

Name of applicant	Trademark	Place of application	Class	Application number	Application date
PD (HK)	LIVE – LITE	PRC	9	7597081	5 August 2009
PD (HK)	LIVE – LITE	PRC	10	7597122	5 August 2009
PD (HK)	LIVE – LITE	HK	9	301385244	15 July 2009
PD (HK)	PAL	HK	9	301385235	15 July 2009

Note:

(1) The following classes cover in the PRC, the products specified below among other things.

Domain Names

As at the Latest Practicable Date, members of our Group had registered the following domain names:

Registrant	Domain Name	Date of registration	Expiry Date
PD (HK)	www.perceptiondigital.com	11 March 1999	11 March 2010

Patents

As at the Latest Practicable Date, members of our Group had registered the following patents:

Description	Registrant	Place of registration	Patent number	Granted date
MP4播放器 (PD6160)(Fitness MP4*)	PD Shenzhen	PRC	200830106099.9	9 September 2009
Battery operated portable electronic device having dual batteries	PD (HK)	United States	US 7,573,154 B2	11 August 2009
Personal Audio Player	PD (HK)	United States	US 7,571,015 B2	4 August 2009
Digital multimedia jukebox	Dr. Lau, Prof. Tsui, Prof. Cheng, Chi Wai Yung, Jimmy, Tai Kwan, Kin Ping Ng, Sai Kit Lai, Kai Kin Chan, Wing Chau Chan *(note)*	United States	US 7,548,851 B1	16 June 2009
一種運動時連續監測生命體征參數的傳感裝置 (An apparatus for sensing vital sign during exercise*)	PD Shenzhen; PD (HK)	PRC	ZL 2008 2 0004147.8	25 February 2009
相框 (Photo frame*)	PD Shenzhen; PD (HK)	PRC	ZL 2007 3 0159199.3	24 September 2008
一種用於電子設備的儲能裝置 (An apparatus for storing electrical energy in electronic devices*)	PD Shenzhen; PD (HK)	PRC	ZL 2007 2 0152257.4	17 September 2008

Note: The registrants have assigned the patent to our Group, subject to successful registration of the change of registrant with the patent registration authority in the relevant territory.

Description	Registrant	Place of registration	Patent number	Granted date
用於顯示數碼圖片的電子顯示裝置 (An apparatus for displaying digital images*)	PD Shenzhen; PD (HK)	PRC	ZL 2007 2 0152256.x	10 September 2008
Combination cooking utensil	PD (HK)	United States	US 7,409,765 B2	12 August 2008
Media center	PD (HK)	United States	US D547,326 S	24 July 2007
MP3播放器 (MP3 Player*) (PD208)	PD Shenzhen	PRC	ZL 2006 3 0016082.5	7 February 2007
MP3播放器 (MP3 Player*) (PD135-02)	PD Shenzhen	PRC	ZL 2006 3 0052708.8	3 January 2007
MP3播放器 (MP3 Mini-HiFi*) (PD5000)	PD Shenzhen	PRC	ZL 2005 3 0074324.1	4 October 2006
MP3播放器 (MP3 Player*) (PD3000)	PD Shenzhen	PRC	ZL 2005 3 0075807.3	30 August 2006
Media center (Moses design patent)	PD (HK)	EU	000498001-0001	20 June 2006
MP3播放器 (MP3 Player*)	PD Shenzhen	PRC	ZL 2005 3 0058420.7	8 February 2006

As at the Latest Practicable Date, we were in the process of applying for the registration of the following patents:

Description	Applicant	Place of application	Application number	Application date
耳塞式耳機(Earphone device for alleviating vibration*)	PD Shenzhen	PRC	PCT/CN2009/074953	16 November 2009
健康手機(Healthcare mobile phone*)	PD Shenzhen; PD (HK)	PRC	200920204782.5	14 September 2009
耳機裝置(Earphone with health and exercise monitoring functions*)	PD Shenzhen; PD (HK)	PRC	200910189687.7	31 August 2009
Method and apparatus for improving the accuracy of accelerometer	PD (HK)	United States	12/549,720	28 August 2009

Description	Applicant	Place of application	Application number	Application date
手持式電子設備及其控制顯示內容的方法 (Portable electronic device and methods for controlling its display content*)	PD Shenzhen; PD (HK)	PRC	200910108899.8	12 August 2009
耳塞式耳機 (Earbud design for alleviating vibration*)	PD Shenzhen; PD (HK)	PRC	200920131840.6	18 May 2009
遙控裝置 (Gesture enabled remote control*)	PD Shenzhen; PD (HK)	PRC	200920131115.9	28 April 2009
三軸加速度計的精度調整裝置與調整方法 (Apparatus and method of adjusting the accuracy of three-axis accelerometer*)	PD Shenzhen; PD (HK)	PRC	200910106725.8	17 April 2009
便携式播放器 (Portable player*)	PD Shenzhen; PD (HK)	PRC	200920130337.9	3 April 2009
MP3播放器 (MP3 Player*) (PD6810)	PD Shenzhen; PD (HK)	PRC	200930164255.1	27 March 2009
Exercise device, sensor and method of determining body parameters during exercise	PD (HK)	EU	09250024.8	6 January 2009
Apparatus and a method for monitoring physical exercise	PD (HK)	United States	12/342,678	23 December 2008
影音播放器 (Waterproof multimedia player*)	PD Shenzhen; PD (HK)	PRC	200820235337.0	19 December 2008
Exercise device, sersor and method of determining body parameters during exercise	PD (HK)	United States	12/195,502	21 August 2008
計步方法、步幅校正方法、測距方法及計步裝置 (Method and apparatus of counting step and distance travelled*)	PD Shenzhen; PD (HK)	PRC	200810142474.4	19 August 2008
帶計步器的多媒體裝置及其控制方法 (Method and apparatus of controlling media player with pedometer*)	PD Shenzhen; PD (HK)	PRC	200810142396.8	18 August 2008

Description	Applicant	Place of application	Application number	Application date
一種處理在運動時獲取的生命體征信號的方法及裝置 (A method for retrieving vital sign during exercise*)	PD Shenzhen; PD (HK)	PRC	200810006882.7	3 February 2008
根據生命體征參數即時調節出的多媒體裝置及方法 (An apparatus and method for adjusting multimedia player output*)	PD Shenzhen; PD (HK)	PRC	200810006883.1	3 February 2008
Melody retrieval system	PD (BVI)	United States	11/953,215	10 December 2007
便携式媒體播放機更新媒體內容的方法 (Method of updating contents in a portable player*)	PD Shenzhen; PD (HK)	PRC	200710123503.8	29 June 2007
Electronic display device for displaying digital images	PD (HK)	United States	11/736,122	17 April 2007
Method of providing media content for a portable media player	PD (HK)	United States	11/690,263	23 March 2007
Method of automatically selecting multimedia files for transfer between two storage mediums	PD (HK)	United States	11/465,585	18 August 2006
Fast algorithm for building multimedia library database	PD (HK)	United States	11/417,215	4 May 2006
Multimedia devices with enhanced functionality	PD (HK)	United States	11/113,032	25 April 2005

Note: From the experience of our Group, it is not uncommon to take more than three years to obtain government approvals for patent applications, in particular in developed countries such as the US and we in general took two to five years to complete a patent application. We therefore do not consider having any difficulties in obtaining government approvals for our patent applications.

Copyright

As at the Latest Practicable Date, members of our Group had registered the following copyrights in the PRC:

Description	Registrant	Place of registration	Patent number	Registration date
PD5000迷你高保真音響系統V1.0	PD Shenzhen	PRC	2007SR10940	25 March 2007
PD510便携式袖珍DAB系統V1.0	PD Shenzhen	PRC	2007SR10941	31 March 2007
PD6810 Heart Pal應用軟體 簡稱：Heart Pal	PD Shenzhen	PRC	2009SR023746	30 July 2008

3. FURTHER INFORMATION ABOUT MEMBERS OF OUR GROUP

(a) PD (BVI)

Name of the company	Perception Digital Technology (BVI) Ltd.
Place of incorporation	BVI
Date of incorporation	25 February 2000
Public or private	Private
General nature of business	Investment holding
Authorized share capital	500,000 shares of US$0.1 par value each
Issued share capital	131,977 shares of US$0.1 par value each
Attributable interest of our Company	100%

(b) PD (HK)

Name of the company	Perception Digital Limited
Place of incorporation	Hong Kong
Date of incorporation	22 January 1999
Public or private	Private

General nature of business	Currently engaged in research and development of consumer electronic devices and technologies utilized in such devices and the sale and/or licensing (as applicable) of such self-developed consumer electronic devices and technologies.
Authorized share capital	100,000 shares of HK$1.00 par value each
Issued share capital	67,690 shares of HK$1.00 par value each
Attributable interest of our Company	100%

(c) PD Trading

Name of the company	PD Trading (Hong Kong) Limited
Place of incorporation	Hong Kong
Date of incorporation	11 September 2000
Public or private	Private
General nature of business	Trading and provision of logistics services.
Authorized share capital	100,000 shares of HK$1.00 par value each
Issued share capital	2 shares of HK$1.00 par value each
Attributable interest of our Company	100%

(d) IWC

Name of the company	IWC Digital Limited
Place of incorporation	Hong Kong
Date of incorporation	10 March 2000
Public or private	Private
General nature of business	Inactive
Authorized share capital	1,000 shares of HK$1.00 par value each
Issued share capital	2 shares of HK$1.00 par value each
Attributable interest of our Company	100%

(e) PD Shenzhen

Name of the company	幻音科技(深圳)有限公司 (Perception Digital Technology (Shenzhen) Limited)
Nature of the company	Wholly foreign-owned enterprise
Term of business operation	From 22 November 2001 to 22 November 2021
Registered capital	HK$8,000,000
Total investment	HK$8,400,000
Attributable interest of our Company	100%
Scope of business	Developing multimedia hardware and Internet communication application devices and selling self-developed products; developing multimedia software and Internet communication software and selling self-developed software; Developing, wholesaling, importing and exporting MP3, MP4, mobile phones, Bluetooth earphones, mobile televisions, digital photo frames, mini water-proof televisions and security cameras, and undertaking the relevant business of such products.
Legal representative	Dr. Lau

4. FURTHER INFORMATION ABOUT THE DIRECTORS

a. Particulars of Directors' service contracts

Each of our Directors has entered into a service contract with our Company for an initial term of 3 years commencing from the date on which our Shares are listed on GEM, which will continue thereafter until terminated by not less than 6 months notice in writing served by either party on the other.

Each of the Directors is entitled to the respective basic salary set out below. Directors' fees are subject to approval by Shareholders at our Company's annual general meeting. Each Director may also receive a year end bonus in respect of each financial year of our Company. The amount of such bonus will be determined by the remuneration committee of the Board, subject to the approval by Shareholders in general meeting.

We may terminate the service agreements entered into with our Directors prior to the expiry of their term by service of notice in writing if any of these Directors, among other things, is disqualified to act as a director under any applicable law or rules prescribed by the Stock Exchange or the SFC, found guilty of misconduct or default in the course of his employment or commit any serious or persistent breach of any of his/her obligations to our Group, convicted of any criminal offence punishable by imprisonment or be convicted of racketeering or dishonesty or became bankrupt. None of these Directors will be entitled to any benefits upon termination of their respective service agreements.

All necessary and reasonable travel and other out-of-pocket expenses properly incurred by the Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

Name	Annual basic salary
Dr. Lau	nil
Prof. Tsui	HK$240,000
Prof. Cheng	HK$180,000
Mr. Chui, Shing Yip Jeff	nil
Prof. Chu Ching Wu, Paul	HK$180,000
Dr. Lam Lee Kiu-yue, Alice Piera	HK$180,000
Dr. Wu Po Him, Philip	HK$180,000
Mr. Shu Wa Tung, Laurence	HK$180,000

The current basic annual salaries of our executive Directors are as follows:

Name	**Annual salary**
Dr. Lau	HK$600,000
Prof. Tsui	nil
Mr. Chui, Shing Yip Jeff	HK$899,400

Pursuant to their respective service agreements, each executive Director shall not, at any time during the period of his employment with our Company and for a period of 12 months after the expiry or termination of his employment, within any country which our Group has operations in or carried on business at the time of the termination of the service agreement as the case may be, accept any office or employment or engage or be concerned or interested directly or indirectly in any business or occupation or hold an investment in any company which is in competition, directly or indirectly, with the business carried on by our Company or any Group company.

Save as disclosed in the paragraph above, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

b. Directors' remuneration during the Track Record Period

Our Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Company; and (ii) non-cash benefits may be provided to our Directors under their remuneration package.

For each of the two years ended 31 December 2007 and 2008, and the six months ended 30 June 2009, the aggregate of the remuneration paid and benefits in kind granted to the directors by our Company and our subsidiaries was HK$1.3 million, HK$2.0 million and HK$0.8 million, respectively.

Save as disclosed in the paragraph above, no other emoluments have been paid or are payable, in respect of the two years ended 31 December 2007 and 2008 by our Company to our Directors.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) by our Company for the year ending 31 December 2009 will be approximately HK$1.6 million.

DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) Interests and short positions of our Directors in the share capital of our Company and our associated corporations following the Share Offer and the Capitalization Issue

Immediately following completion of the Share Offer and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying shares and debentures of our Company and our associated corporations:

Long positions in our Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest in our Company/ associated corporations
Dr. Lau	Deemed interest(1)	179,421,037	29.9%
Prof. Tsui	Interest in a controlled corporation(2)	11,903,210	2.0%
Mr. Chui, Shing Yip Jeff	Interest in a controlled corporation(3)	16,666,540	2.8%
Prof. Cheng	Interest in a controlled corporation(4)	2,976,655	0.5%
Dr. Wu, Po Him, Philip	Beneficial owner	1,599,142	0.3%

Notes:

(1) Dr. Lau is deemed to be interested in the Shares held by Swanland and Masteray, by virtue of these two companies being controlled by Ms. Loh. Dr. Lau, the husband of Ms. Loh, is deemed to be interested in his wife's interests in Swanland and Masteray.

(2) Prof. Tsui is deemed to be interested in the Shares held by Excel Direct by virtue of Excel Direct being controlled by Prof. Tsui.

(3) Mr. Chui, Shing Yip Jeff is deemed to be interested in the Shares held by Glory Wood Limited by virtue of Glory Wood Limited being controlled by Mr. Chui, Shing Yip Jeff.

(4) Prof. Cheng is deemed to be interested in the Shares held by Rochdale by virtue of Rochdale being controlled by Prof. Cheng.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Share Offer and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following persons are expected to have interests or short positions in the Shares or underlying shares of our Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in the Shares and underlying shares of our Group:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Swanland	Beneficial owner	125,592,340	20.9%
Masteray	Interest in a controlled corporation(1)	125,592,340	20.9%
	Beneficial owner	53,828,697	9.0%
Ms. Loh	Interest in a controlled corporation(2)	179,421,037	29.9%
UGH	Beneficial owner	140,482,433	23.4%
Ms. Leung, Yee Li Lana	Interest in a controlled corporation(3)	140,482,433	23.4%
Mr. Heung, Lap Chi Eugene	Interest of spouse(4)	140,482,433	23.4%

Notes:

(1) Masteray is deemed to be interested in the Shares held by Swanland by virtue of Swanland being controlled by Masteray.

(2) Ms. Loh is deemed to be interested in the Shares held by Swanland and Masteray, by virtue of Swanland being controlled by Masteray and Masteray is being controlled by Ms. Loh. Dr. Lau, the husband of Ms. Loh, is deemed to be interested in his wife's interests in Masteray.

(3) Ms. Leung, Yee Li Lana is deemed to be interested in our Shares held by UGH by virtue of UGH being controlled by Ms. Leung, Yee Li Lana. Mr. Heung, Lap Chi Eugene, the husband of Ms. Leung, Yee Li Lana, is deemed to be interested in his wife's interests in UGH.

(4) Mr. Heung, Lap Chi Eugene is the spouse of Ms. Leung, Yee Li Lana and is therefore deemed to be interested in all the Shares held by Ms. Leung, Yee Li Lana by virtue of the SFO.

2. Disclaimers

Save as disclosed in the paragraph headed "Disclosure of Interests" in this Appendix VI to this prospectus:

(a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Share Offer (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the grant of Shares under the Share Scheme or the exercise of options under the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group;

(b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed under the paragraph headed "Other information – Consents of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(d) none of our Directors nor any of the parties listed in the section headed "Other information – Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company's business;

(e) save in connection with the Underwriting Agreement, none of the parties listed in the section headed "Other information – Consents of experts" in this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;

(f) none of our Directors or their associates (as defined in the GEM Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company's issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

OTHER INFORMATION

1. The deed of indemnity dated 30 November 2009

The Controlling Shareholders (collectively "**Indemnifiers**") have entered into a deed of indemnity with and in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) (being the material contract (e) referred to in the paragraph headed "Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of our Group on or before the date on which the Share Offer becomes unconditional.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, the BVI and the PRC.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of our Company and our subsidiaries for the two years ended 31 December 2008 and the six months ended 30 June 2009 (the "**Accounts**") and provision will be made in the audited accounts of our Company and our subsidiaries covering the period from 1 July 2009 to the Listing Date on a basis consistent with that made in the Accounts; or

(b) to the extent that such taxation or liability for such taxation falling on any member of our Group in respect of their accounting periods commencing on 1 July 2009 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected, by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:

   (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or

   (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2009 or pursuant to any statement of intention made in this prospectus; or

   (iii) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

(c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or

(d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2009 and which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this item (d) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, the Indemnifiers have also undertaken to indemnify, on a joint and several basis, our Group against costs, expenses, claims, liabilities, penalties, losses and damages (including, but not limited to, any relocation or destruction cost) incurred or suffered by our Company or any member of our Group arising from or in connection with any failure of our Company, any members of our Group or any parties from whom our Company or any member of our Group purchased, leased or obtained licence or permit to use any property interests owned, leased, licensed or otherwise used or occupied by our Company or any member of our Group (the "**Relevant Property**"), to obtain any property ownership certificate, certificate of title, approval, permit, consent or registration in respect of the Relevant Property.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary Expenses

Our Company's estimated preliminary expenses are approximately HK$30,000 and are payable by our Company.

4. Sponsor

The Sponsor made an application on our Company's behalf to the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, the grant of Shares that may be granted under the Share Scheme and the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 June 2009 (being the date to which our Company's latest audited combined financial statements were made up).

6. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Miscellaneous

Save as disclosed in the section headed "Financial information" in this prospectus and Appendix VI to this prospectus, within the two years immediately preceding the date of this prospectus,

(a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(g) our Company has no outstanding convertible debt securities.

8. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	**Qualification**
Quam Capital Limited	Licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified public accountants
King & Wood PRC Lawyers	PRC legal advisors to our Company legal counsel
Conyers Dill & Pearman	The Cayman Islands legal advisors to our Company
Greater China Appraisal Limited	Independent professional surveyors and valuers

9. Consents of experts

Each of Quam Capital Limited, Ernst & Young, King & Wood PRC Lawyers, Conyers Dill & Pearman and Greater China Appraisal Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

10. Bilingual prospectus

Pursuant to Rule 14.25 of the GEM Listing Rules and section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a written resolution of our Shareholders passed on 27 November 2009 and adopted by a resolution of the Board on 27 November 2009. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. As at the Latest Practicable Date, no option has been granted pursuant to the Share Option Scheme.

Purpose

The purpose of the Share Option Scheme is to motivate Eligible Persons (as defined below) to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date (the "**Approval Date**") on which the following conditions are fulfilled:

- the approval of all the shareholders of our Company for the adoption of the Share Option Scheme; and

- the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options (as defined below) in accordance with the terms and conditions of the Share Option Scheme.

Who may join

The Board may, at its absolute discretion, offer options ("**Options**") to subscribe to such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("**Employee**"), any full-time or part-time Employee, or a person for the time being seconded to work fulltime or part-time for any member of our Group ("**Executive**");

- a director or proposed director (including an independent non-executive director) of any member of our Group;

- a direct or indirect shareholder of any member of our Group;

- a supplier of goods or services to any member of our Group;

- a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

- a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

- an associate of any of the foregoing persons. (the persons referred above are the "**Eligible Persons**")

Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**") provided that our Company may at any time as the Board may think fit, seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed.

Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

Maximum entitlement of each participant

No Options may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company's issued share capital from time to time.

Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years after the Approval Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

Subject to the provisions of the GEM Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the Option in respect of all or some of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

Granting Options to Connected Persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the GEM Listing Rules require, where any offer of an Option is proposed to be made to a Director, chief executive or a substantial shareholder (as defined in the GEM Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (where the securities are listed on GEM), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million,

such further grant of Options must be approved by Shareholders (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the GEM Listing Rules. All connected persons of our Company must abstain from voting in favor at such general meeting.

Approval from the shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of HK$1.0 by way of consideration for the grant thereof is received by our Company on or before 30 days after the offer date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on GEM or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option.

Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

Exercise price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- the nominal value of a Share;
- the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

Exercise of Option

An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the option period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given.

The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.

Subject as hereinafter provided:

- in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;

- in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

- if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

- if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

    - the option period (in respect of any particular Option, the period commencing immediately after the Business Day on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by the Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

- the period of two months from the date of such notice; or

- the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option.

- in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the reopening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date herefore shall be before the allotment date.

Any Shares issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- the expiry of the option period;
- the expiry of any of the period referred to paragraphs related to exercise of Option;
- subject to the period mentioned in the section headed "Exercise of Option" in this Appendix, the date of the commencement of the winding-up of our Company;
- there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or
- a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- the maximum number of Shares subject to the Share Option Scheme; and/or
- the aggregate number of Shares subject to the Option so far as unexercised; and/or
- the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;

- no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

- any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 23 of the GEM Listing Rules and supplementary guidance on the interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time (including supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Schemes); and

- the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the "**Cancellation Date**"):

- the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;

- the grantee makes a written request to the Board for the Option to be cancelled; or

- if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the GEM Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 23.03 of the GEM Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- the approval of all the Shareholders for the adoption of the Share Option Scheme; and

- the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the WHITE and YELLOW Application Forms, the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI and copies of the material contracts referred to in the paragraph headed "Summary of the material contracts" in Appendix VI.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) our Memorandum and the Articles;

(b) the Accountants' Report prepared by Ernst & Young, the texts of which are set out in Appendix I to this prospectus;

(c) the consolidated financial statements of PD (BVI) for each of the two years ended 31 December 2008 and the six months ended 30 June 2009;

(d) the letter received from Ernst & Young on unaudited pro forma financial information, the texts of which are set out in Appendix II to this prospectus;

(e) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;

(f) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Greater China Appraisal Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the material contracts referred to in the paragraph headed "Summary of the material contracts" in Appendix VI to this prospectus;

(h) the service contracts with our Directors, referred to in the paragraph headed "Particulars of Directors' service contracts" in Appendix VI to this prospectus;

(i) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus;

(j) the legal opinions prepared by King & Wood PRC Lawyers, our legal advisors as to the PRC law, in respect of certain aspects of our Group and our property interests;

(k) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix V to this prospectus;

(l) the Companies Law; and

(m) the rules of the Share Option Scheme.