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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

- The Group recorded a turnover of approximately HK$533.4 million for the year ended 31 December 2011 (2010: approximately HK$497.7 million).
- The net loss attributable to shareholders for the year ended 31 December 2011 amounted to approximately HK$22.0 million (2010: net profit of approximately HK$23.0 million).
- The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: proposed final dividend of HK0.5 cent per ordinary share).

ANNUAL RESULTS

The board of Directors (the "Board") presents the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011 together with the comparative figures for the corresponding period in 2010.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$	2010 HK$
REVENUE	4	**533,406,703**	497,683,452
Cost of sales		**(486,958,388)**	(423,252,233)
Gross profit		**46,448,315**	74,431,219
Other income and gain	5	**8,748,028**	673,347
Research and development costs		**(8,321,705)**	(7,357,953)
Selling and distribution costs		**(13,923,258)**	(10,338,614)
General and administrative expenses		**(45,467,014)**	(27,776,524)
Other expenses, net		**(7,435,420)**	(144,036)
Finance costs	6	**(5,434,911)**	(2,591,923)
PROFIT/(LOSS) BEFORE TAX	7	**(25,385,965)**	26,895,516
Income tax credit/(expense)	8	**3,397,094**	(3,871,559)
PROFIT/(LOSS) FOR THE YEAR		**(21,988,871)**	23,023,957
Attributable to:			
Owners of the parent		**(21,988,871)**	23,023,957
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9	***HK cents***	*HK cents*
Basic and diluted		**(3.5)**	3.7

Details of the dividend proposed for the year ended 31 December 2010 are disclosed in note 10.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011	2010
	HK$	*HK$*
PROFIT/(LOSS) FOR THE YEAR	**(21,988,871)**	23,023,957
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**687,630**	315,223
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(21,301,241)**	23,339,180
Attributable to:		
Owners of the parent	**(21,301,241)**	23,339,180

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$	2010 HK$
NON-CURRENT ASSETS			
Property, plant and equipment		**9,229,064**	4,651,187
Deferred development costs		**35,427,233**	22,190,769
Long term deposits		**2,614,748**	566,458
Deferred tax assets		**2,406,665**	139,734
Total non-current assets		**49,677,710**	27,548,148
CURRENT ASSETS			
Inventories		**46,512,587**	36,491,318
Trade receivables	*11*	**153,744,297**	188,382,008
Prepayments, deposits and other receivables		**67,043,273**	14,520,493
Tax recoverable		**1,042,526**	–
Pledged deposits		**16,960,903**	9,183,376
Cash and cash equivalents		**40,365,986**	39,497,771
Total current assets		**325,669,572**	288,074,966
CURRENT LIABILITIES			
Trade payables	*12*	**167,896,256**	125,287,874
Other payables and accruals		**27,391,762**	10,010,218
Interest-bearing bank borrowings		**70,182,220**	47,616,385
Tax payable		**833,767**	2,030,352
Provision		**1,634,537**	891,142
Total current liabilities		**267,938,542**	185,835,971
NET CURRENT ASSETS		**57,731,030**	102,238,995
TOTAL ASSETS LESS CURRENT LIABILITIES		**107,408,740**	129,787,143
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**7,393,825**	7,766,604
Deferred tax liabilities		**1,397,528**	2,424,120
Total non-current liabilities		**8,791,353**	10,190,724
Net assets		**98,617,387**	119,596,419
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**62,250,000**	62,250,000
Reserves		**36,367,387**	57,346,419
Total equity		**98,617,387**	119,596,419

NOTES:

1. CORPORATE INFORMATION

Perception Digital Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was primarily involved in the research, design and development of digital signal processing ("DSP") platform and the provision of embedded firmware and "end-to-end" turnkey solutions to customers for their DSP-based consumer electronic devices.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group.

4. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue

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 royalty income received and receivable during the year.

An analysis of revenue is as follows:

	2011	2010
	HK$	*HK$*
Sale of goods	**515,308,512**	450,387,489
Rendering of services	**14,974,072**	34,603,046
Royalty income	**3,124,119**	12,692,917
	533,406,703	497,683,452

Operating segment

The Group focuses on the research, design and development of DSP platform and the provision of embedded firmware and "end-to-end" turnkey solutions to customers for their DSP-based consumer electronic devices. Information reported to the Group's chief operating decision maker, for the purpose of making decisions about resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2011 and 2010, and certain non-current asset information as at 31 December 2011 and 2010, by geographical areas.

	European Union	United States of America	Mainland China	Hong Kong	Others	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Year ended 31 December 2011						
Revenue from external customers	127,389,937	114,892,720	23,512,896	208,559,828	59,051,322	533,406,703
Year ended 31 December 2010						
Revenue from external customers	189,636,419	31,007,122	63,997,817	179,314,260	33,727,834	497,683,452
As at 31 December 2011						
Non-current assets	–	–	15,023,970	32,247,075	–	47,271,045
As at 31 December 2010						
Non-current assets	–	–	7,089,640	20,318,774	–	27,408,414

The Group's revenue information by geographical areas is based on the destination where the goods are delivered, except for revenue arising from the rendering of services and royalty income, which is based on the locations where the customers are domiciled/located. The Group's non-current asset information by geographical areas is based on the locations of the assets, excluding deferred tax assets.

Information about major customers

Revenues of HK$364,585,318 (2010: HK$368,248,227) and HK$67,518,263 (2010: Nil) were derived from transactions with two customers, which amounted to 10 per cent or more of the Group's total revenue for the year.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2011	2010
	HK$	*HK$*
Other income		
Bank interest income	**97,598**	23,968
Other interest income	**6,979,133**	–
Marketing and service income	**–**	73,028
Management service income	**–**	39,000
Government subsidies	**248,953**	114,550
Others	**1,409,835**	422,801
	8,735,519	673,347
Gain		
Gain on disposal of items of property, plant and equipment, net	**12,509**	–
	8,748,028	673,347

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2011	2010
	HK$	*HK$*
Interest on bank loans and overdrafts wholly repayable within five years	**2,696,110**	1,916,538
Bank charges	**930,911**	675,385
Other finance costs	**1,807,890**	–
	5,434,911	2,591,923

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2011	2010
	HK$	*HK$*
Cost of inventories sold and services rendered	**486,958,388**	423,252,233
Depreciation	**3,563,335**	3,102,021
Research and development costs:		
Deferred expenditure amortised	**11,897,552**	5,877,644
Current year expenditure	**8,321,705**	7,357,953
	20,219,257	13,235,597
Impairment of deferred development costs	**2,696,891**	–
Impairment of trade receivables	**4,484,428**	116,250

8. INCOME TAX

No provision for Hong Kong profits tax has been made for the current year as the Group did not generate any assessable profits arising in Hong Kong during the year. Hong Kong profits tax had been provided for the prior year at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011	2010
	HK$	*HK$*
Group:		
Current – Hong Kong:		
– Charge for the year	**–**	1,156,758
– Under/(over) provision in prior years	**(1,070)**	26,377
Current – Elsewhere:		
– Charge for the year	**220,823**	245,253
– Overprovision in prior years	**(274,544)**	–
	(54,791)	1,428,388
Deferred	**(3,342,303)**	2,443,171
Total tax charge/(credit) for the year	**(3,397,094)**	3,871,559

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share is based on:

	2011	2010
	HK$	*HK$*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	**(21,988,871)**	23,023,957

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year	**622,500,000**	621,760,274

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

Diluted earnings/(loss) per share amount equals to basic earnings/(loss) per share amount. No adjustment has been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the share options of the Company had no dilutive effect on the basic earnings/(loss) per share amount presented.

10. DIVIDEND

	2011	2010
	HK$	*HK$*
Proposed final – Nil (2010: HK0.5 cent per ordinary share)	**–**	3,112,500

11. TRADE RECEIVABLES

	Group	
	2011	2010
	HK$	*HK$*
Trade receivables	**159,385,524**	189,538,807
Impairment	**(5,641,227)**	(1,156,799)
	153,744,297	188,382,008

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days or 90 days after month-end statement, extending to a longer period for certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the end of the reporting period, based on payment due date and net of provisions, is as follows:

	Group	
	2011	2010
	HK$	*HK$*
Current	**102,359,108**	136,826,460
Less than 31 days	**41,890,416**	43,715,039
31 to 60 days	**2,332,505**	855,418
61 to 90 days	**1,875,488**	478,681
Over 90 days	**5,286,780**	6,506,410
	153,744,297	188,382,008

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$	*HK$*
Within 30 days	**87,452,320**	92,199,704
31 to 60 days	**40,032,027**	21,911,203
Over 60 days	**40,411,909**	11,176,967
	167,896,256	125,287,874

MANAGEMENT DISCUSSION AND ANALYSIS

General

The Group is principally engaged in the provision of embedded firmware and turnkey solutions for consumer electronics devices, with services such as concept consultation, technology feasibility study, embedded firmware design and development, industrial design, intellectual property research, manufacturing and packaging, logistic management and after sales support.

BUSINESS REVIEW

For the year under review, revenue of the Group increased by approximately 7.2% to HK$533.4 million from HK$497.7 million as recorded in the year ended 31 December 2010. The increase was mainly attributable to the increase in sales of products by 14.4% as compared to last year, which was related to our products newly launched in 2011, including our Android based mobile phones, the Vulkano, our first place shift multimedia streaming box, and the smart phones and featured phones shipped in the last quarter of 2011 under a new supply chain management arrangement.

The overall gross profit of the Group for the current year was severely encumbered by the continuing impact from the European debt crisis in the second half of the year, which led to a decrease by approximately 37.6% to HK$46.4 million from HK$74.4 million as recorded in last year. This was mainly resulted from the decline in service income from the provision of project development and management services, which commanded higher profit margin, and led to a decrease in the gross profit margin by 6.2 percent point as compared to last year.

The Group turned from a net profit of HK$23.0 million in last year to a net loss of HK$22.0 million for the current year under review, which was mainly caused by (i) the decrease in gross profit as abovementioned; (ii) the increase in operating expenses such as office rental expenses, share option expense, staff salaries and the finance costs incurred for factoring facilities granted in 2011; and (iii) the impairment of deferred development costs and trade receivables, which are further discussed below.

In terms of revenue breakdown, for the current year under review, our revenue from sale of goods, royalty fees and income from rendering of services contributed approximately 96.6% (2010: 90.5%), 0.6% (2010: 2.6%) and 2.8% (2010: 6.9%), respectively. During the year, the revenue from products delivered to the United States increased significantly from HK$31.0 million in last year to approximately HK$114.9 million in the current year under review, which was mainly attributable to the shipment of our new smart phones and featured phones since September 2011.

PROSPECTS

During the year ended 31 December 2011, the Group has been actively exploring new products and markets in view of the continuous economic retardation resulting from the debt crisis in Europe, which is one of the major locations of our customers. In 2011, the Group has drastically changed the Group in order to diversify the revenue mix. In the past, the Group only focused on serving a limited number of key customers, which is the (P)referred Customers Team ("P Team"). During the current year, we added three more teams, namely (S)upply Chain Team ("S Team"), (O)ther Innovative Technology Team ("O Team") and (A)ndroid Team ("A Team"). The S team focuses on using our technology and supply chain management to form partnership to enable next generation of profits. The O Team works with the mobile operators and Live-Lite series. The A Team represents the Android Team and other smart operating system related products. The Directors are confident that the Group will be able to diversify its concentration risk of customers in the coming year with the new products launched in 2011 and to be launched in 2012 under the "SOAP" teams, with further details as setout below.

S Team

In August 2011, the Group entered into a supply chain management agreement with a company (the "PRC Company") incorporated in the People's Republic of China ("PRC"), pursuant to which the Group became the sole exclusive supply chain partner of the PRC Company, which involves in the design of smart phones and featured phones mainly used in the United States. In September 2011, the Group commenced the first shipment of smart phones and featured phones to certain branded mobile operators in the United States. The Group believes the new supply chain services can generate considerable amount of revenue in the coming year.

Besides, the Group is under co-development of new versions of Vulkano, the place shift multimedia streaming box, with the business partner for new functions enhancement. The first shipment of the new versions is expected to be shipped in the third quarter of 2012.

A Team

The Group had launched its first Android based digital media receiver, PDXtra TV in late 2011, which is targeted to be sold in the PRC (including Hong Kong) market under a brand name "3Bays" registered by the Group in 2011. In Hong Kong, the Group had appointed Jebsen & Co Ltd., a world-wide trading and marketing service group, as its exclusive distributor to promote the PDXtra TV in Hong Kong and Macau. In the PRC, the Group had partnered with certain branded retail stores to promote and sell the PDXtra TV mainly in Beijing, Shanghai, Guangzhou and Shenzhen. In view of the expansion of business operations in the PRC, the Group had established a branch office in Chengdu in the second quarter of 2011. The Group believes that PDXtra TV will enable the Group to increase its benefits from the PRC and Hong Kong markets in the coming year.

O Team

During the year 2011, the Group has been developing a new and innovative product, Golf Swing Analyzer ("3BaysGSA"), which embedded a 3 axial G-sensor and Gyroscope sensor to capture more than 10,000 data points per swing and shows the results, including the club head speed, tempo, face angle and the review of swing arc, immediately on an Android OS or iOS product through Bluetooth communication for instant review, so as to help the golfers to practise a consistent and better swing. The development of 3BaysGSA is in the final stage and product launch is expected in the second quarter of 2012. 3BaysGSA was introduced in 2011 Hong Kong Electronic Fairs (Autumn) and plenty of positive feedbacks were received from worldwide potential customers. Currently, the Group has identified certain golf academies, golf coaches, sports chain stores, golf pro shops, dealer shops in Hong Kong, the United States and Europe, to promote 3BaysGSA. The Group believes that the 3BaysGSA will become one of the main revenue streams of the Group in the coming year.

Looking ahead to the prospect in 2012, the Directors are confident that the division of "SOAP" teams will be able to reduce the concentration risk of our customer base and mitigate the impact of the European debt crisis and global economic slowdown in the coming year. With the success transfer of the listing of the Company's shares (the "Transfer of Listing") from the Growth Enterprise Market ("GEM") to the Main Board of The Stock Exchange of Hong Kong Limited which enhances the profile of the Company and increase the trading liquidity of its shares, and in view of the strong research and development team and strong resource of valuable patents, the Directors believe that the Group will make a good prospect in 2012.

FINANCIAL REVIEW

Results of the Group

Turnover

The turnover of the Group for the year ended 31 December 2011 was approximately HK$533.4 million, represented an increase of approximately 7.2% as compared to the year ended 31 December 2010. The increase was mainly attributable to the increase in sales of products by 14.4% as compared to last year.

Cost of sales

Cost of sales of the Group increased by approximately 15.1% from HK$423.2 million for the year ended 31 December 2010 to HK$487.0 million for the year ended 31 December 2011.

Gross profit and margin

The gross profit of the Group for the year ended 31 December 2011 decreased by 37.6%, from approximately HK$74.4 million to HK$46.4 million. The significant decrease in gross profit margin from 15.0% to 8.7 % for the year ended 31 December 2011 was mainly resulted from (i) the decrease in service income from the provision of project development and management services which commanded higher profit margin; and (ii) the decrease in gross profit margin of the Group's traditional portable electronic devices as resulted from the market downturn in Europe during the current year.

Other income and gain

Other income and gain of the Group significantly increased by 1,199.2%, from approximately HK$673,000 for the year ended 31 December 2010 to approximately HK$8.7 million for the year ended 31 December 2011, primarily because of the interest income recognised during the current year on certain trade and other receivables as a compensation for the extension of repayment period.

Research and development costs

Research and development costs increased by 13.1% from HK$7.4 million for the year ended 31 December 2010 to HK$8.3 million for the year ended 31 December 2011, primarily due to the increase in salaries of our engineers during the current year.

Selling and distribution costs

Selling and distribution costs increased by 34.7% from HK$10.3 million for the year ended 31 December 2010 to HK$13.9 million for the year ended 31 December 2011, primarily resulting from the increase in number of sales persons to cope with the launch of our new products and increase in staff salaries in the year 2011.

General and administrative expenses

General and administrative expenses increased by approximately 63.7% from HK$27.8 million for the year ended 31 December 2010 to HK$45.5 million for the year ended 31 December 2011, primarily as a result of increase in staff salaries, office rental expenses and share option expense in relation to the share options granted on 11 August 2011. The general and administrative expenses in the year 2011 included certain professional fees and other expenses in relation to the Transfer of Listing amounted to approximately HK$3.5 million, which are non-recurring in nature.

Other expenses, net

Other expenses, net for the year ended 31 December 2011 mainly represented (i) the impairment of deferred development costs amounting to HK$2.7 million in relation to certain projects capitalised in the years prior to the year ended 31 December 2011 where the future economic benefits to be generated from those projects are not expected to be significant; and (ii) the impairment of certain trade receivables amounting to HK$4.5 million which aged for more than one year, where the Group is in the opinion that the recovery of such amount is doubtful.

Finance costs

Finance costs increased by HK$2.8 million, or approximately 109.7%, from HK$2.6 million for the year ended 31 December 2010 to HK$5.4 million, primarily due to the increase in bank charges and interest expense incurred for the factoring facilities granted to the Group in the year ended 31 December 2011.

Income tax credit/expense

Income tax balance turned from an income tax expense of approximately HK$3.9 million in the year ended 31 December 2010 to an income tax credit of HK$3.4 million during the year ended 31 December 2011, which was mainly resulted from the recognition of the deferred tax assets with reference to the tax losses incurred by certain subsidiaries of the Company during the current year.

Liquidity and financial resources

	2011	2010
	HK$	*HK$*
Current assets	**325,669,572**	288,074,966
Current liabilities	**267,938,542**	185,835,971
Current ratio	**1.22**	1.55

The current ratio of the Group decreased from 1.55 as at 31 December 2010 to 1.22 as at 31 December 2011. As at 31 December 2011, cash and cash equivalents of the Group amounted to approximately HK$40.4 million (2010: HK$39.5 million), and approximately HK$0.2 million (2010: HK$0.7 million) of which are denominated in Renminbi.

In view of the Group's current level of cash and cash equivalents funds generated internally from our operations and the unutilised banking facilities available, the Board is confident that the Group will have sufficient resources to meet its debt repayment and finance need for its operations.

Gearing ratio

	2011	2010
	HK$	*HK$*
Total bank and other borrowings	**77,576,045**	55,382,989
Equity	**98,617,387**	119,596,419
	176,193,432	174,979,408
Gearing ratio	**44.0%**	31.7%

The gearing ratio increased from 31.7% as at 31 December 2010 to 44.0% as at 31 December 2011, primarily due to the decrease in equity resulted from the net loss incurred during the year.

As at 31 December 2011, the maturity profile of the bank borrowings of the Group falling due within one year or on demand, in the second year and in the third to fifth years, inclusive, amounted to approximately HK$70.0 million (2010: HK$46.4 million), HK$3.5 million (2010: HK$3.4 million) and HK$4.1 million (2010: HK$5.6 million), respectively.

Capital structure

The capital of the Group comprises only ordinary shares. As at 31 December 2011, the total number of the ordinary shares of the Group issued and outstanding was 622,500,000 shares.

Significant investments

The Group did not have any significant investment plans for the year ended 31 December 2011.

Material acquisitions or disposals

During the reporting period, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Group.

Future plans for material investments or capital assets

The Group had no specific plans for material investments or capital assets as at 31 December 2011.

Foreign currency exposure

The foreign currency exposure of the Group primarily arises from revenue or income generated, cost and expenses incurred, and certain bank and other borrowings denominated in currencies other than the functional currency of the Group's operating units. For the Group's operating units that have the United States dollars ("US$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange ruling as at 31 December 2011 were mainly denominated in Hong Kong dollars ("HK$"). As the HK$ is pegged to the US$ within a narrow band, the Group does not expect any significant movements in the US$/HK$ exchange rate. Accordingly, we consider the Group's foreign currency risk exposure is not significant.

Contingent liabilities

As at 31 December 2011 and 2010, the Group did not have any significant contingent liabilities.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: proposed final dividend of HK 0.5 cent per ordinary share totalling approximately HK$3.1 million).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 May 2012 to 1 June 2012, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 29 May 2012.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group employed a total of 298 (2010: 239) employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$62.0 million for the year under review (2010: approximately HK$46.6 million).

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance, provident fund, education subsidy and training to its employees. The Company adopted a share option scheme on 27 November 2009, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their past contributions to the Group and motivating them to optimize their future contributions to the Group.

CHANGE OF PRINCIPAL BUSINESS ADDRESS

The principal place of business of the Company in Hong Kong had been changed to 21st Floor, Fortis Tower, No. 77-79 Gloucester Road, Hong Kong with effect from 28 February 2011.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison of business objectives with actual business progress

An analysis comparing the business objectives as stated in the prospectus of the Company dated 4 December 2009 (the "Prospectus") with the Group's actual business progress for the period from 1 January 2011 to 31 December 2011 is set out below:

Business objectives for the period from 1 January 2011 to 31 December 2011 as stated in the Prospectus	Actual business progress up to 31 December 2011
1. Product and technology development	
To enhance and introduce additional features on the "Live-Lite" series such as fat analyzer, glucose and blood pressure measurement; continue development of the algorithms for new applications under the "Live-Lite" series which cater for other sports; continue development of new features and applications on the open source-based multimedia Internet devices.	During the year ended 31 December 2011, the development of the new Bluetooth headset with an infra-red heart rate monitor had been completed and the product is expected to be launched in the first quarter of 2012. The Group also launched the Android based mobile phone with 4.3" display in the second quarter of 2011. In addition, the Group has successfully developed its first Android based digital media receiver, PDXtra TV, and the product was launched in late 2011.

Business objectives for the period from 1 January 2011 to 31 December 2011 as stated in the Prospectus	Actual business progress up to 31 December 2011
2. Broadening our market coverage and expansion of our sales network	
To develop sales channels in the PRC; participate in trade fairs and exhibitions in Hong Kong and overseas; and continue discussions with major consumer electronics and fitness equipment OEMs and fitness institutions.	The Group had set up a branch office in Chengdu in the second quarter of 2011 to expand its sales channels in the PRC. To cope with of the launch of our PDXtra TV in late 2011, the Group had formed alliances with certain branded retail stores in the PRC to build up sales channels. The Group is also evaluating carefully to set up other branches in the PRC in the coming year. In terms of trade fairs and exhibition, we participated in the Hong Kong Electronics Fair held in October 2011 and other trade shows in Europe and the United States.
3. Enhancing our research and development capability	
To continue hiring additional research and development staff	During the year 2011, we have hired an additional 32 research and development professionals and will continue to expand our research and development team.

USE OF PROCEEDS

During the period from the listing of the Company's ordinary shares on GEM on 16 December 2009 (the "Listing") to 31 December 2011, the net proceeds from the issue of new shares upon the Listing and the over-allotment option exercised on 8 January 2010 (the "Over-allotment Option") had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from the Listing to 31 December 2011	**Actual use of proceeds from the Listing to 31 December 2011**
Product and technology development	HK$12 million	Approximately HK$11.5 million
Broadening market coverage and expansion of sales network	HK$11.5 million	Approximately HK$9.0 million
Enhancement of research and development capability	HK$9.0 million	Approximately HK$8.4 million
Repayment of bank borrowings	HK$38.0 million	Approximately HK$38.0 million
Working capital and other general corporate purposes	HK$8.0 million	Approximately HK$15.8 million *(Note)*

Note: The excess of HK$7.8 million used in working capital was derived from the net proceeds through the exercise of the Over-allotment Option.

The Company raised a total net proceeds of approximately HK$97.3 million through the Listing and the exercise of the Over-allotment Option. The proceeds were applied in accordance with the actual development and the remaining proceeds amounting to approximately HK$14.6 million as at 31 December 2011 had been placed as interest bearing deposits in banks in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE

The Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CG Code") throughout the period under review, except for the following deviations:

The code provision A.2.1 stipulates that the roles of the chairman of the Board (the "Chairman") and the chief executive officer (the "CEO") should be separate and should not be performed by the same individual.

Dr. Jack Lau was the Chairman and the CEO during the period under review, responsible for the management of the Board and the operations of the Group. The Board considered that Dr. Jack Lau has thorough understanding and expertise regarding the business operations of the Group and thus enabling him to make appropriate decisions on a timely manner which are in the interests of the shareholders of the Company as a whole. Considering the present size of the Company and the scope of business of the Group, there is no imminent need to separate the roles of the Chairman and the CEO. However, the Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of the Chairman and the CEO is necessary.

AUDIT COMMITTEE

The Company established an audit committee on 27 November 2009 with written terms of reference in compliance with Rules 3.21 to 3.22 of the Listing Rules. The audit committee comprises three independent non-executive Directors, namely Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence. The committee is chaired by Mr. Shu, Wa Tung Laurence. The primary duties of the audit committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The annual results of the Group for the year ended 31 December 2011 have been reviewed by the audit committee.

By order of the Board
Perception Digital Holdings Limited
Dr. Jack Lau
Chairman and Executive Director

Hong Kong, 23 March 2012

As at the date of this announcement, the executive Directors are Dr. Lau, Jack and Mr. Tao Hong Ming; the non-executive Directors are Prof. Cheng, Roger Shu Kwan and Prof. Tsui, Chi Ying; and the independent non-executive Directors are Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence.

This announcement will remain on the "Latest Listed Company Information" page of the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk for at least 7 days from the date of its publication and on the Company's website at www.perceptiondigital.com.