Perception Digital Holdings Limited

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

Stock Code: 1822

Annual Report

2012

Contents

Corporate Information

Directors

Executive Directors

Dr. Lau, Jack *(Chairman and Chief Executive Officer)*
Mr. Tao, Hong Ming *(resigned on 1 February 2013)*

Non-executive Directors

Prof. Cheng, Roger Shu Kwan
Prof. Tsui, Chi Ying

Independent Non-executive Directors

Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland
Mr. Shu, Wa Tung Laurence
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng Wai Hung *(appointed on 7 January 2013)*

Company Secretary

Mr. Lee, Rabi

Compliance Officer

Dr. Lau, Jack

Authorised Representatives

Dr. Lau, Jack
Mr. Lee, Rabi

Audit Committee

Mr. Shu, Wa Tung Laurence *(Chairman)*
Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng Wai Hung *(appointed on 7 January 2013)*

Nomination Committee

Dr. Lam Lee, Kiu Yue Alice Piera
(Chairman, resigned on 25 March 2013)
Prof. Chin, Tai Hong Roland
Mr. Shu, Wa Tung Laurence
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng Wai Hung *(appointed on 7 January 2013)*

Remuneration Committee

Prof. Chin, Tai Hong Roland *(Chairman)*
Dr. Lam Lee, Kiu Yue Alice Piera
(resigned on 25 March 2013)
Mr. Shu, Wa Tung Laurence
Mr. William Keith Jacobsen *(appointed on 7 January 2013)*
Mr. Ng Wai Hung *(appointed on 7 January 2013)*

Hong Kong Share Registrar

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Website

www.perceptiondigital.com

Stock Code

01822

Principal Bankers

Shanghai Commercial Bank Limited
Hang Seng Bank Limited

Auditors

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Unit 311, 3rd Floor Core Building 1
No. 1 Science Park East Avenue
Hong Kong Science Park
Pak Shek Kok
New Territories
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Chairman's Statement

Dear shareholders,

The year 2012 continued to be a challenging year for the Group, marred by the unfavourable and unstable environment caused by the global economic downturn. Many of the major economies experienced sluggish demand and struggled with debt. Various structural issues continued to emerge, such as the fiscal cliff in the United States and debt crisis in the Eurozone, being one of the key markets of the Group.

In view of the various unforeseeable circumstances, we made a determined decision in mid 2012 to significantly reduce our headcounts, which were mainly engineers, and streamline our business to focus on our traditional audio products and motion analyzers in various sport areas. We also implemented several cost saving measures to enhance our ability to compete in the unstable environment which is likely to be continued in the foreseeable future.

During the second half of 2012, we launched our first golf swing analyser ("3Bays GSA"), which we received many positive feedback from our customers in different countries. We believe the Group will keep this momentum during the year 2013 and 3Bays GSA will become one of our key profit generators in 2013. Recently, we also launched our new version of 3Bays GSA for golf putting. With the encouragement from the successful launch of our 3Bays GSA, we will continue to utilise our existing resources to develop new series of 3Bays GSA and new series of activity analysing devices which combine our sensor technology and cloud technology. This will enable the users to transfer and store their analysed activity data through cloud media.

The outlook for 2013 remains challenging. The Group will continue to trim the overhead, streamline the business and focus on the development projects as abovementioned. We believe that risks create opportunities, and if we stay true to our hardworking and learning tradition, we will be able to overcome the temporary difficulties.

Dr. Lau, Jack
Chairman

25 March 2013

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

During the year under review, revenue of the Group decreased by approximately 36.1% to HK$340.9 million from HK$533.4 million as recorded in the year ended 31 December 2011. The decrease was mainly attributable to (i) the decrease in sales of products by 34.6% from HK$515.3 million in last year to HK$337.2 million during the year ended 31 December 2012; and (ii) the decrease in service income from rendering of project development and management services by HK$11.4 million, or 76.2%, from HK$15.0 million in the year ended 31 December 2011 to HK$3.6 million in the current year, which was mainly because customers were more conservative in researching and developing new products after the prolonged instability of the global economic condition.

The overall gross profit of the Group during the current year was severely encumbered by the continuing impact from the European debt crisis during the current year, which led to a decrease by approximately 45.0% to HK$25.5 million from HK$46.4 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. However, the impact on the gross profit margin resulted from the decrease in service income was partly compensated by the new product (golf swing analyzer) launched by the Group in the second half of 2012, which also commanded a higher profit margin than other products of the Group, which led to a net decrease in the overall gross profit margin of the Group by 1.2% for the year ended 31 December 2012 as compared to last year.

The net loss of the Group increased significantly to HK$96.6 million during the year ended 31 December 2012 from HK$22.0 million as recorded in last year mainly because of (i) the decrease in gross profit as abovementioned; (ii) the increase in other operating expenses resulted from (a) the write-off of inventories of HK$10.8 million (as mentioned below); (b) the impairment of deferred development costs on certain products amounted to HK$8.3 million, which cannot be recovered by the future economic benefits generated by those products; (c) impairment of certain trade and other receivables amounted to HK$17.3 million.

In terms of revenue breakdown, during the current year under review, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 98.9% (2011: 96.6%), 0.1% (2011: 0.6%) and 1.0% (2011: 2.8%), respectively. During the year, upon the requests from customers for coping with their marketing strategies, products delivered to Hong Kong significantly decreased by HK$141.2 million to approximately HK$67.3 million in current year under review.

Prospects

The year 2012 is full of challenges for the global economy. The unfavourable business environment caused by the European sovereign debt crisis continues to affect the global consumer electronic market. Since the beginning of 2012, the Group has been facing high pressure on price reduction as imposed by the downturn market. In addition, customers had become more conservative in investing in research and development projects, which led to our significant decrease in project development service income during the year ended 31 December 2012.

Nevertheless, by leveraging the Group's advantage on its intellectual supply chain service in the PRC, the Group will continue to meticulously deploy the sales network in the target markets and look for more development projects. In particular, with the successful launch of our Golf Swing Analyzer ("3Bays GSA") in 2012, the Group is currently focusing to develop sales channels in the United States, the PRC, Japan and Singapore. Since the launch of the 3Bays GSA, the Group has gained positive feedback and supports from many professional golf coaches and players, which encourages the Group to put further effort in enhancing the product. The Group is also planning to apply similar technology in developing analytical equipment in other sport areas in 2013.

Notwithstanding the fact that the Group is exploring new customers for new products and deploying new revenue stream, the Group is also aware of the uncertainty in the global economic recovery and therefore the Group had adopted several cost saving measures since July 2012 to strengthen the liquidity of the Group. The cost saving measures included but not limited to (i) streamline the operation flows and focus on core product development, which reduced our work force by approximately 60%; (ii) centralised our employees in Hong Kong from two office premises to one office premise; and (iii) tightening the cost control policies on various expenditures such as travelling allowances and utility expenses. Looking forward to 2013, the Group believes that after implementing the above cost saving measures and continuing to explore new markets for our products, we can cope with the upcoming challenges and grasp opportunities that come along when the market recovers. With the support of our strong research and development expertise, the Group will continue its endeavours to create higher value and return for its shareholders.

Financial Review

Results of the Group

Turnover

The turnover of the Group for the year ended 31 December 2012 was approximately HK$340.9 million, represented a decrease of approximately 36.1% as compared to the year ended 31 December 2011. The decrease was mainly attributable to the decrease in sales of products by 34.6% as compared to last year.

Cost of sales

Cost of sales of the Group decreased by approximately 35.2% from HK$487.0 million for the year ended 31 December 2011 to HK$315.3 million for the year ended 31 December 2012.

Gross profit and margin

The gross profit of the Group for the year ended 31 December 2012 was decreased by 45.0%, from approximately HK$46.4 million to HK$25.5 million. The significant decrease in gross profit was mainly resulted from the decline in service income from the provision of project development and management services and the sale of the traditional portable electronic devices as resulted from the market downturn in Europe during the current year. With the new golf swing analyzer launched in the second half of 2012, which had higher profit margin than the traditional products, the overall gross margin for the year ended 31 December 2012 only decreased by 1.2% as compared to last year.

Other income and gain

Other income and gain of the Group decreased by 84.5%, from approximately HK$8.7 million for the year ended 31 December 2011 to approximately HK$1.4 million for the year ended 31 December 2012. The significant balance for the prior year was mainly because of the interest income recognised on certain account receivables as a compensation for the extension of repayment period. There was no such income recognised during the current year.

Research and development costs

Research and development costs increased by 184.5% from HK$8.3 million for the year ended 31 December 2011 to HK$23.7 million for the year ended 31 December 2012, mainly due to the increase in research and development costs incurred for the development of new models of smart phones in 2012.

Selling and distribution expenses

Selling and distribution expenses increased by 16.3% from HK$13.9 million for the year ended 31 December 2011 to HK$16.2 million for the year ended 31 December 2012, primarily resulting from the increase in sales commission and agency fees for promoting new products in the year 2012.

General and administrative expenses

General and administrative expenses decreased by approximately 13.6% from HK$45.5 million for the year ended 31 December 2011 to HK$39.3 million for the year ended 31 December 2012, primarily as a result of the cost saving measures which were implemented in several stages during the second half of 2012.

Other expenses, net

Other expenses, net for the year ended 31 December 2012 mainly represented (i) the impairment of deferred development costs amounting to HK$8.3 million in relation to certain project costs capitalised in the years prior to the year ended 31 December 2012 where the future economic benefits to be generated from those projects are not expected to be significant; (ii) a write-off of certain raw materials amounted to HK$10.8 million previously stored in a subcontracted warehouse which were found to be lost during the annual stock take process; and (iii) the impairment of certain trade and other receivables amounting to HK$17.3 million, where the Group is of the opinion that the probability to recover those receivables is remote.

Finance costs

Finance costs increased by HK$3.2 million, or approximately 57.4%, from HK$5.4 million for the year ended 31 December 2011 to HK$8.6 million, which was mainly due to the increase in utilisation of the Group's banking facilities and factoring facilities to fund the Group's operations.

Income tax credit

Income tax credit decreased by HK$2.0 million from approximately HK$3.4 million in the year ended 31 December 2011 to HK$1.4 million during the year ended 31 December 2012, which was mainly resulted from the recognition of the deferred tax assets with reference to the tax losses incurred by one of the subsidiaries of the Company during the current year to the extent of the taxable temporary differences which was recognised as deferred tax liabilities in the prior years.

Liquidity and financial resources

	2012	2011
	HK$	HK$
Current assets	**208,242,405**	325,669,572
Current liabilities	**198,907,729**	267,938,542
Current ratio	**1.05**	1.22

The current ratio of the Group decreased from 1.22 as at 31 December 2011 to 1.05 as at 31 December 2012 mainly resulting from the write-off of inventories, write-down of inventories to net realisable value and impairment of the trade and other receivables during the current year. As at 31 December 2012, cash and cash equivalents of the Group amounted to approximately HK$43.2 million (2011: HK$40.4 million), and approximately HK$10.3 million (2011: HK$0.2 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 from the Open Offer 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 for the foreseeable future.

Gearing ratio

	2012	2011
	HK$	HK$
Total bank and other borrowings	**137,036,232**	77,576,045
Equity	**8,793,534**	98,617,387
	145,829,766	176,193,432
Gearing ratio	**94.0%**	44.0%

The gearing ratio increased from 44.0% as at 31 December 2011 to 94.0% as at 31 December 2012 primarily due to the decrease in equity resulted from the net loss incurred during the year.

As at 31 December 2012, the maturity profile of the bank and other 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$92.1 million (2011: HK$70.2 million), HK$44.1 million (2011: HK$3.3 million) and HK$0.8 million (2011: HK$4.1 million), respectively.

Capital structure

The capital of the Company comprises only ordinary shares. As at 31 December 2012, the total number of the ordinary shares of the Company issued and outstanding was 622,500,000 shares. Subsequent to the issue of the 311,250,000 Offer Shares on 20 March 2013, the total number of ordinary shares of the Company was increased to 933,750,000.

Significant investments

The Group did not have any significant investment plans for the year ended 31 December 2012.

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 2012.

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$") as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange ruling as at 31 December 2012 were mainly denominated in Hong Kong dollars ("HK$"). 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.

Charges on Group's assets

As at 31 December 2012, certain of the Group's bank deposits of HK$16.2 million (2011: HK$17.0 million) were pledged to secure certain banking facilities granted to the Group.

Commitments

(a) As sublessor

The Group subleases its office premises under an operating lease arrangement, with the lease negotiated for a term of two years.

At 31 December 2012, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenants falling due as follows:

	Group	
	2012	2011
	HK$	HK$
Within one year	**516,250**	–

(b) As lessee

The Group leases its office premises, certain of its office equipment and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$	HK$
Within one year	**1,415,573**	7,092,890
In the second to fifth years, inclusive	**414,227**	7,433,413
	1,829,800	14,526,303

Contingent liabilities

As at 31 December 2012 and 2011, the Group did not have any significant contingent liabilities.

Employees and Remuneration Policy

As at 31 December 2012, the Group employed a total of 120 employees (2011: 298). Total staff costs, including Directors' emoluments, amounted to approximately HK$57.6 million for the year under review (2011: approximately HK$62.0 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.

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Lau, Jack, aged 45, is one of the founders of the Group. He is the Chairman and Chief Executive Officer of the Company. He was appointed as an executive Director on 11 September 2009. Dr. Lau is currently an adjunct associate professor at the Hong Kong University of Science and Technology (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. Afterwards, he pursued his research interest at Stanford University from 1995 to 1996 and returned to HKUST in 1996. Dr. Lau currently holds more than 10 registered patents. He has published at various leading Institute of Electrical and Electronic Engineers ("IEEE") journals and conferences. He was awarded the Top Ten Outstanding Young Person (十大傑出青年) by Hong Kong Junior Chamber in 2000; the Young Industrialist Award of Hong Kong (香港青年工業家獎) by the Hong Kong Young Industrialists Council in 2005; and the World Outstanding Young Chinese Entrepreneur (世界傑出青年華商) by the World Federation of Chinese Entrepreneurs Organization, Ernst & Young Entrepreneur Of The Year China by Ernst & Young in 2009 and Directors of the Year Awards by The Hong Kong Institute of Directors. Dr. Lau is currently a director of SemiLEDs Corporation (stock code: LEDS), a company listed on Nasdaq Stock Market.

Mr. Tao, Hong Ming, aged 45, was appointed as an executive Director on 13 October 2010. He graduated from the Hong Kong Polytechnic University in 1990 with a Bachelor's degree in Electronic Engineering. He has over 19 years of working experience in engineering, sales and marketing, project management and operation in electronics business. 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. 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 is also a Senior Vice President of the Group and is responsible for sales and marketing, project management and operation. Mr. Tao resigned as the director of the Company on 1 February 2013.

Non-executive Directors

Prof. Cheng, Roger Shu Kwan, aged 48, is one of the founders of the Group. He was appointed as a non-executive Director on 18 September 2009. He is currently a professor in the Electronic and Computer Engineering Department 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 had served as editors for many journals including IEEE Transactions on Wireless Communications and as a consultant for industrial projects sponsored by various communication system and IC companies in Hong Kong, US and China.

Biographical Details of Directors and Senior Management

Prof. Tsui, Chi Ying, aged 53, was one of the founders of the Group and appointed as an executive Director on 18 September 2009. He was re-designated as a non-executive Director on 10 March 2010. 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 Electrical and Electronic Engineering Department of HKUST in 1994 and is currently a 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 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.

Independent Non-executive Directors

Dr. Lam Lee, Kiu Yue Alice Piera, aged 73, was appointed as an independent non-executive Director on 18 September 2009. Dr. Lam has over 18 years of experience in banking and finance. She joined Hang Seng Bank Limited (stock code: 11) in 1978 and was appointed as a director in 1989, the general manager from 1990 to 1993, the managing director and deputy chief executive from 1994 to 1996. 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: 8009) 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 honored to be awarded the Gold Bauhinia Star by the Hong Kong government in recognition of her service to the Hong Kong community. In 2011, Dr. Lam was awarded an honorary Doctor of Laws degree by the Lingnan University and an honorary Doctor of Social Science degree by the Open University of Hong Kong. Dr. Lam resigned as the director of the Company on 25 March 2013.

Prof. Chin, Tai Hong Roland, aged 59, was appointed as an independent non-executive Director on 2 October 2010. He studied Electrical Engineering at the University of Missouri, Columbia (B.S. 1975; Ph.D. 1979). He subsequently worked at the NASA Goddard Space Flight Center in Maryland for two years prior to joining the Faculty of Electrical and Computer Engineering at the University of Wisconsin, Madison from 1981 to 1995 (Assistant Professor 1981; Associate Professor 1984; Full Professor 1989). Since he joined HKUST in 1992, he has served as Head of Department (1996 – 2001), Vice-President for Academic Affairs and Deputy President (2006 – 2010), and Vice-President for Research and Development (2003 – 2006). From 2001 to 2003, he was also the Vice-President for Information Technology of Applied Science and Technology Research Institute. He joined HKU in July 2010 as Deputy Vice-Chancellor and Provost, and Chair Professor of Computer Science.

Prof. Chin has served on numerous public bodies including the Hong Kong Examinations and Assessment Authority, Employees Retraining Board, Quality Education Fund, Hong Kong Association for Computer Education, Hospital Authority, Applied Research Council, Innovation and Technology Commission, Cyberport Board and Education Bureau. He was the Chairman of the Research Grants Council from 2005 to 2012, and also a Member of the University Grants Committee from 2004 to 2012. He is currently Chairman of the Board of HKEdCity and the Science Museum Advisory Panel of LCSD, HKSAR Government. He is also a Trustee of the Croucher Foundation, a Board Member of Hong Kong Applied Science and Technology Research Institute (ASTRI), and a Member of the Steering Committee on Innovation & Technology and the Commission on Strategic Development of the HKSAR Government.

Mr. Shu, Wa Tung Laurence, aged 40, was appointed as an independent non-executive Director on 18 September 2009. He is currently an independent non-executive Director of Greater China Holdings Limited (stock code: 431) and HL Technology Group Limited (stock code: 1087). Mr. Shu graduated from Deakin University in Australia in 1994 with a Bachelor's degree in Business majoring in Accounting. He is a Certified Public Accountant of the HKICPA and a Certified Practising Accountant of CPA Australia. He has over 15 years of experience in audit, corporate finance and corporate advisory services. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1994 and later became a manager of the Reorganization Services Group and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and the company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the company's financial management function. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited（熔盛重工控股有限公司）. He is currently the chief financial officer of Petro-King Oilfield Services Limited (stock code: 2178), overseeing the company's financial management function.

Mr. William Keith Jacobsen, aged 46, was appointed as an independent non-executive Director on 7 January 2013. He is the managing director of a licensed corporation to advise on corporate finance matters. Mr. Jacobsen has more than 20 years of experience in corporate finance and business development. Mr. Jacobsen is an executive director of Auto Italia Holdings Limited (formerly known as Wo Kee Hong (Holdings) Limited, stock code: 720) and is also an independent non-executive director of Hycomm Wireless Limited (stock code: 499), abc Multiactive Limited (stock code: 8131), China Financial Leasing Group Limited (stock code: 2312) and Sustainable Forest Holdings Limited (stock code: 723). He was also an independent non-executive director of King Stone Energy Group Limited (stock code: 663) for the period from 26 September 2008 to 30 September 2011.

Mr. Ng Wai Hung, aged 49, was appointed as an independent non-executive Director on 7 January 2013. He is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors. Mr. Ng practises in the areas of securities law, corporate law and commercial law in Hong Kong. Mr. Ng is also an independent non-executive director of six companies listed on The Stock Exchange of Hong Kong Limited, namely Fortune Sun (China) Holdings Limited (stock code: 352), Gome Electrical Appliances Holding Limited (stock code: 493), Hycomm Wireless Limited (stock code: 499), Trigiant Group Limited (stock code: 1300), Sustainable Forest Holdings Limited (stock code: 723) and Tech Pro Technology Development Limited (stock code: 3823). Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited，stock code: 663), KTP Holdings Limited (currently known as Ares Asia Limited, stock code: 645) and Tomorrow International Holdings Limited (currently known as Talent Property Group Limited (stock code: 760) and resigned in February 2010, February 2011 and January 2012, respectively.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Cheng, Lap Hing, Martin, aged 44, our Director of project management, joined our Group in September 2001 as a Product Engineering Manager. He was promoted to his current position in January 2011. 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. Ho, Sai Hung, Francis, aged 48, 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 Appliances Company Limited as a Product Designer from May 2001 to March 2002. Mr. Ho has over 21 years' experience of concept creation, product design and design management in consumer electronics industry.

Mr. Lai, Sai Kit, Dennis, aged 37, is our 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. Lee, Rabi, aged 39, is our Finance Director and Company Secretary, 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.

Biographical Details of Directors and Senior Management

Mr. Wong, Kin Chun, Steven, aged 58, 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, and NSM which is Join venture company with National Simi-Conductor, he have been engaged in the area of product resarch 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 bachelors degree in Computer Sciences.

Ms. Wong, Yin Mei, Venus, aged 34, our Director of 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.

Mr. Yip, Chun Kwan, aged 36, is our Program Director of Vendor Management. Mr. Yip graduated from HKUST with a Bachelor's degree in Computer Engineering in 1999. He continued to study at HKUST upon graduation and obtained his Master of Philosophy degree in Electrical and Electronic Engineering in 2001. He obtained the Master of Philosophy degree in Industrial Engineering and Engineering Management in 2008. He joined our Group in July 2006 as R&D manager. Mr. Yip has more than 11 years of working experience in both technical and project management in the electronics industry. Before joining our Group, Mr. Yip was the chief technical officer in Integrated Microdisplays Limited.

Mr. Yu, Wai Keung, Nicky, aged 45, our Senior Director OEM Program Management, joined our Group in October 2010. Mr. Yu graduated from the University of Sunderland in 1991 with a Bachelor Degree in Electrical and Electronic Engineering and has the Master of Business Administration from Hong Kong Baptist University in 2005. Mr. Yu had worked for VTech Communications Ltd. as a development engineer from February 1992 to June 1994, and for Surface Mount Technology Ltd between June 1994 to June 1997 and worked as Marketing and Material Manager respectively in OEM business. Mr. Yu served as a Material Manager in Kaifa Technology (HK) Ltd. from June 1997 to February 1998 in Floppy Disk Drive business. Before joining our Group, Mr. Yu was the Senior Program Manager of VTech Communications Ltd. between February 1998 to September 2010 and responsible for project management in contract manufacturing business. Mr. Yu has over 19 years working experience in engineering, material, marketing and project management in electronic business.

Corporate Governance Report

The Board is pleased to present this corporate governance report for the year ended 31 December 2012. This report highlights the key corporate governance practices of the Company.

Corporate Governance Practices

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards. The Company has adopted the Code Provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has made certain amendments ("Amendments") to the Listing Rules, which are related to the Code, practices and the reporting. Such Amendments took effect from 1 January 2012, 1 April 2012 or 31 December 2012, respectively.

With the introduction of the Code as revised with effect from 1 April 2012 ("Revised Code"), the Board adopted the Revised Code.

The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Code and the Revised Code, and make appropriate changes if considered necessary. The Company was in compliance with the applicable code provisions in the Code (the "Code Provision") and the Revised Code (the "Revised Code Provision") for the year ended 31 December 2012, except for Code Provision or Revised Code Provision A.2.1. The following sections set out the principles in the Code and Revised Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

Board

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing the shareholders value.

As at 31 December 2012, the Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors (the "INEDs"). During the year ended 31 December 2012, the Board held four meetings.

During the year, the attendance of each Director is set out below:

Directors	Attendance
Executive Directors	
Dr. Lau, Jack *(Chairman & Chief Executive Officer)*	4/4
Mr. Tao, Hong Ming*	4/4
Non-Executive Directors	
Prof. Cheng, Roger Shu Kwan	4/4
Prof. Tsui, Chi Ying	4/4
Independent Non-Executive Directors	
Dr. Lam Lee, Kiu Yue Alice Piera*	4/4
Prof. Chin, Tai Hong Roland	4/4
Mr. Shu, Wa Tung Laurence	4/4

* Subsequent to the end of the reporting period, Mr. Tao, Hong Ming and Dr. Lam Lee, Kiu Yue Alice Piera resigned as directors of the Company on 1 February 2013 and 25 March 2013, respectively.

During the year, the Non-Executive Directors (a majority of whom are independent) provided the Company with a wide range of expertise and a balance of skills and brought independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and Committee meetings. Throughout the year and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules. The former Rule requires that every board of directors of a listed issuer must include at least three INEDs and the latter Rule requires that at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise. All INEDs also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. Further, up to the date of this Report, the Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

The Company has received from each Independent Non-Executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-Executive Directors are explicitly identified in all corporate communications. The day-to-day running of the Company is delegated to the management.

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing and will be reviewed by the Board from time to time to ensure that they are consistent with the existing rules and regulations.

Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Directors' Induction and Continuous Professional Development

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills. From time to time, Directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Revised Code on continuous professional development during the year ended 31 December 2012:

Directors	Corporate Governance, Regulatory Development and Trainings on other relevant topics
Executive Directors	
Dr. Lau, Jack	✓
Mr. Tao, Hong Ming*	✓
Non-Executive Directors	
Prof. Cheng, Roger Shu Kwan	✓
Prof. Tsui, Chi Ying	✓
Independent Non-Executive Directors	
Dr. Lam Lee, Kiu Yue Alice Piera*	✓
Prof. Chin, Tai Hong Roland	✓
Mr. Shu, Wa Tung Laurence	✓

* Subsequent to the end of the reporting period, Mr. Tao, Hong Ming and Dr. Lam Lee, Kiu Yue Alice Piera resigned as directors of the Company on 1 February 2013 and 25 March 2013, respectively.

Chairman and Chief Executive

Chairman and Chief Executive Officer

The Code Provision or Revised 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. Lau, Jack 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. Lau, Jack 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.

Non-Executive Directors

All the Independent Non-Executive Directors were appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

Committees

As part of the corporate governance practices, the Board has established the remuneration committee, nomination committee, and audit committee. All of the committees are chaired by and composed of INEDs with terms of reference in accordance with the principles set out in the Code and the Revised Code.

Remuneration Committee

The Company established a remuneration committee on 27 November 2009 with written terms of reference. During the year ended 31 December 2012, the remuneration committee comprises three INEDs, namely Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence. The committee is chaired by Prof. Chin, Tai Hong Roland.

The primary duties of the remuneration committee are formulating remuneration policies, determining the specific remuneration packages of executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors. During the year ended 31 December 2012, the remuneration committee reviewed and made recommendation on the remuneration packages of the existing Directors, the newly appointed Directors and the senior management.

During the year, one Remuneration Committee meeting was held and the attendance of each member is set out below:

Remuneration Committee	Attendance
Prof. Chin, Tai Hong Roland *(Chairman)*	1/1
Dr. Lam Lee, Kiu Yue Alice Piera*	1/1
Mr. Shu, Wa Tung Laurence	1/1

* Subsequent to the end of the reporting period, Dr. Lam Lee, Kiu Yue Alice Piera resigned as a director of the Company on 25 March 2013.

Remuneration of Directors and Senior Management

Pursuant to the code provision B.1.5 of the Revised Code, the remuneration of the members of senior management by band for the year ended 31 December 2012 is set out below:

	Notes	Number of individuals
Nil – HK$1,000,000	(i)	9
HK$1,000,001 – HK$1,500,000	(ii)	1

Notes:

(i) Included the remuneration payable to a member of senior management who resigned during the year.

(ii) The remuneration was payable to a member of senior management who resigned during the year.

Further details in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements, respectively.

Nomination Committee

The Company established a nomination committee on 27 November 2009 with written terms of reference. During the year ended 31 December 2012, the nomination committee comprises three INEDs, namely Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence. The committee is chaired by Dr. Lam Lee, Kiu Yue Alice Piera.

The primary duties of the nomination committee are reviewing the structure, size and composition of the Board, formulating relevant procedures for nomination of directors, identifying qualified individuals to become members of the Board and making recommendation to the Board on the appointment or re-appointment of directors. During the year ended 31 December 2012, the nomination committee reviewed the composition of the Board, the profiles of the candidates to be appointed as new Directors and made recommendation to the Board.

During the year, one Nomination Committee meeting was held and the attendance of each member is set out below:

Nomination Committee	Attendance
Dr. Lam Lee, Kiu Yue Alice Piera*	1/1
Prof. Chin, Tai Hong Roland	1/1
Mr. Shu, Wa Tung Laurence	1/1

* Subsequent to the end of the reporting period, Dr. Lam Lee, Kiu Yue Alice Piera resigned as a director of the Company on 25 March 2013.

Audit committee

The Company established an audit committee on 27 November 2009. During the year ended 31 December 2012, 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 audited financial statements of the Group for the year ended 31 December 2012 have been reviewed by the audit committee.

During the year ended 31 December 2012, the audit committee reviewed the internal control system, as well as the first quarterly, interim and annual results of the Group, which, in the opinion of the audit committee, were prepared in compliance with the applicable accounting standards and the Listing Rules.

During the year, three Audit Committee meetings were held and the attendance of each member is set out below:

Audit Committee	Attendance
Mr. Shu, Wa Tung Laurence *(Chairman)*	2/2
Dr. Lam Lee, Kiu Yue Alice Piera*	2/2
Prof. Chin, Tai Hong Roland	2/2

* Subsequent to the end of the reporting period, Dr. Lam Lee, Kiu Yue Alice Piera resigned as a director of the Company on 25 March 2013.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company periodically issues notices to the Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of results. The Company has confirmed, having made specific enquiry of the Directors, all the Directors have complied with the Model Code throughout the period under review.

Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility for overseeing the preparation of the accounts of the Company. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2012 is set out in the section "Independent Auditors' report" of this annual report.

The Group's external auditors provided the following services to the Group for the year ended 31 December 2012:

	HK$
Audit services	1,380,000

Internal Control

The Board is responsible for maintaining an effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The audit committee reviewed the overall effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2012. The Board will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

Shareholders' Rights

Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the Articles of Association of the Company, any one or more members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and the meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board will be reimbursed to the requisitionist(s) by the Company.

Communication with Shareholders and Procedures for Putting forward Proposals at a General Meeting

All published information, including all the statutory announcements and press releases, is promptly posted on the Group's website at http//www.perceptiondigital.com. Shareholders can also send enquiries to the Board or the Company Secretary, and/or proposals to be put forward at shareholders' meeting for shareholders' consideration by email at sales@perceptiondigital.com or directly by raising questions at the annual general meeting of the Company.

Investor Relations

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its annual and interim reports, announcements and circulars. The corporate website of the Company (www.perceptiondigitial.com) has provided an effective communication platform to the public and the shareholders.

Company Secretary

The Company Secretary of the Company, Mr. Lee Rabi, was appointed on 30 April 2011. He is a full time employee of the Company and has day-to-day knowledge of the Company. The Company Secretary reports to the Chief Executive Officer and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Report of the Directors

The directors of the Company (the "Directors") hereby present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Change of principal business address

The principal place of business of the Company in Hong Kong had been changed to Unit 311, 3rd Floor, Core Building 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong with effect from 15 January 2013.

Results

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 109.

Closure of Register of Members

The register of members of the Company will be closed from 29 May 2013 to 31 May 2013, 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 28 May 2013.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Share Capital, Share Options and Warrants

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options and warrants during the year are set out in notes 26 and 25 to the financial statements, respectively.

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.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 110. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2012, there is no Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of Cayman Islands' legislation (2011: HK$58.8 million).

Charitable Contributions

During the year ended 31 December 2011, the Group made charitable contributions totalling HK$1,000,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 90.6% of the total sales for the year and sales to the largest customer included therein amounted to 70.9%. Purchases from the Group's five largest suppliers accounted for 52.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to 14.5%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Directors

The Directors during the year were:

Executive directors:

Dr. Lau, Jack
Mr. Tao, Hong Ming

Non-Executive directors:

Prof. Cheng, Roger Shu Kwan
Prof. Tsui, Chi Ying

Independent Non-Executive directors:

Dr. Lam Lee, Kiu Yue Alice Piera
Mr. Shu, Wa Tung Laurence
Prof. Chin, Tai Hong Roland

Subsequent to the end of the reporting period, on 7 January 2013, Mr. William Keith Jacobsen and Mr. Ng Wai Hung were appointed as independent non-executive directors of the Company. Mr. Tao, Hong Ming and Dr. Lam Lee, Kiu Yue Alice Piera resigned as directors of the Company on 1 February 2013 and 25 March 2013, respectively.

In accordance with articles 83 and 84 of the Company's articles of association, Prof Cheng, Roger Shu Kwan, Prof. Tsui Chi Ying and Prof Chin, Tai Hong Roland will retire from office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

Confirmation of independence

The Company has received an annual confirmation of independence from each of the independent non-executive Directors, namely Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin, Tai Hong Roland and Mr. Shu, Wa Tung Laurence pursuant to Rule 3.13 of the Listing Rules. The Company considers the independent non-executive Directors to be independent as at the date of this report.

Biographical details of directors and senior management

The biographical details of the Directors and the senior management of the Group are set out on pages 11 to 15 of this annual report. Directors' positions held with the subsidiaries of the Company are as follows:

Subsidiaries	Directorship
Perception Digital Technology (BVI) Ltd.	Dr. Lau, Jack ("Dr. Lau"), Prof. Cheng, Roger Shu Kwan ("Prof. Cheng") and Prof. Tsui, Chi Ying ("Prof. Tsui")
Perception Digital Limited	Dr. Lau, Prof. Cheng and Prof. Tsui
PD Trading (Hong Kong) Limited	Dr. Lau, Prof. Cheng and Prof. Tsui
IWC Digital Limited	Dr. Lau and Prof. Tsui
幻音科技(深圳)有限公司	Dr. Lau, Prof. Cheng and Prof. Tsui

Directors' Service Contracts

The service contracts between the Company and each of the Directors are for a term of three years, subject to renewal by agreement for one or more consecutive terms of three years. Their terms of office are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Contract of Significance

Save as disclosed in the below section "Continuing Connected Transactions", no Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

There is no contract of significance between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

Competing Interests

For the year ended 31 December 2012, the Directors were not aware of any business or interest of the Directors, the controlling shareholder and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

Emolument Policy

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the remuneration committee of the Board, subject to shareholders' approval at general meetings.

The emolument policy of the Group is on the basis of the qualifications and contributions of individuals to the Group. The Company has adopted a share option scheme as an incentive to eligible participants, details of which are set out below in the section "Share Option Scheme".

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 and 9 to the financial statements, respectively.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2012, the interests and short positions of the Directors and chief executive in the share capital of the Company and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules adopted by the Company, were as follows:

Long positions in the ordinary shares of the Company (the "Shares"):

Name of Director	Capacity/Nature of Interest: Personal interest	Capacity/Nature of Interest: Corporate interest	Share options	Total	Percentage of the Company's issued share capital
Dr. Lau	182,566,037 (note a)	–	–	182,566,037	29.33%
Mr. Tao Hong Ming ("Mr. Tao")	300,000	–	750,000	1,050,000	0.17%
Prof. Cheng	–	2,976,655 (note b)	–	2,976,655	0.48%
Prof. Tsui	–	11,903,210 (note c)	–	11,903,210	1.91%
	182,866,037	14,879,865	750,000	198,495,902	31.89%

Notes:

(a) Of the 182,566,037 Shares, 53,828,697 Shares are held by Masteray Limited ("Masteray"), 125,592,340 Shares are held by Swanland Management Limited ("Swanland") and 3,145,000 are held by Ms. Loh, Jiah Yee Katherine ("Ms. Loh"), the spouse of Dr. Lau. Masteray is owned as to 100% by Sea Progress Limited ("Sea Progress"), which, through a discretionary trust, is wholly-owned by Credit Suisse Trust Limited ("Credit Suisse"). Ms. Loh is the founder of a discretionary trust holding 179,421,037 Shares by Credit Suisse, and hence she is deemed to be interested in 182,566,037 Shares. Dr. Lau is deemed to be interested in the Shares held by Ms. Loh.

(b) The 2,976,655 Shares are held by Rochdale Consultancy Limited ("Rochdale"), which is owned as to 50% by Prof. Cheng. Hence, Prof. Cheng is deemed to be interested in the Shares held by Rochdale by virtue of Rochdale being controlled by Prof. Cheng.

(c) The 11,903,210 Shares are held by Excel Direct Technology Limited ("Excel Direct"), which is owned as to 50% by Prof. Tsui. Hence, Prof. Tsui is deemed to be interested in the Shares held by Excel Direct by virtue of Excel Direct being controlled by Prof. Tsui.

Save as disclosed above, as at 31 December 2012, none of the directors or chief executive of the Company or their respective associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 December 2012, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, being 5% or more of the total issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in the Shares:

Name of Substantial Shareholders	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Swanland	Beneficial owner	125,592,340	20.17%
Masteray	Beneficial owner (Note a)	53,828,697	8.65%
	Interest of controlled corporation	125,592,340	20.17%
		179,421,037	28.82%
Sea Progress	Beneficial Owner (Note b)	179,421,037	28.82%
Ms. Loh	Interest of controlled corporation (Note c)	179,421,037	28.82%
	Beneficial owner	3,145,000	0.51%
		182,566,037	29.33%
Manyi Holdings Limited ("Manyi")	Beneficial owner	140,482,322	22.57%
Dr. Wu Po Him, Philip ("Dr. Wu")	Interest of controlled corporation (Note d)	140,482,322	22.57%
	Beneficial owner	1,599,142	0.25%
		142,081,464	22.82%
Notable Success Investments Limited ("Notable Success")	Beneficial owner (Note e)	54,196,943	8.71%
Successful Link Limited ("Successful Link")	Interest of controlled corporation (Note e)	54,196,943	8.71%
Paulo Lam ("Mr. Lam")	Interest of controlled corporation	54,196,943	8.71%

Notes:

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

(b) Masteray is owned as to 100% by Sea Progress, which, through a discretionary trust, is wholly-owned by Credit Suisse.

(c) Ms. Loh is the founder of a discretionary trust holding 179,421,037 Shares by Credit Suisse and hence is deemed to be interested in all the Shares held thereof.

(d) Dr. Wu is the sole beneficial owner of Manyi and hence is deemed to be interested in all the Shares held by Manyi.

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

Save as disclosed above, as at 31 December 2012, no person (other than the Directors whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY" above) had registered an interest or a short position in the Shares or underlying shares of the Company that was required to be recorded in the register of the Company pursuant to section 336 of the SFO.

Share Option Scheme

The Company operates a share option scheme (the "Scheme"), which was approved by a written resolution of the shareholders of the Company and adopted by the Board on 27 November 2009, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. The terms of the Scheme comply with the requirements of the Listing Rules.

The Board may, at its absolute discretion, offer option ("Options") to subscribe to such number of shares of the Company (the "Shares") in accordance with the terms set out in the Scheme to any proposed or existing director, manager or other employee of the Group; any shareholder of the Group; any supplier of goods or services to the Group; any customer, consultant, business or joint venture partner, franchisee, contractor, or agent of any member of the Group; any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and any associate of any of the foregoing persons.

The total number of securities available for issue under the Scheme shall not exceed 60,000,000 Shares, being 10% of total issued Shares as at the date of listing and representing approximately 9.64% of the total issued share capital of the Company as at the date of the annual report.

An offer of the grant of an Option shall remain open for acceptance for a period of 28 days from the date of offer. The maximum entitlement of each participant shall not in any 12-month period exceed 1% of the Company's issued share capital from time to time.

The exercise price is determined based on the higher of (i) the nominal value of the Shares; (ii) the closing price of the Shares on the date of offer; or (iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer.

Details of the Options outstanding as at 31 December 2012 under the Scheme are as follows:

	Number of share options							
Name or category of participant	At 1 Jan 2012	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 Dec 2012	Exercise Price per share	Date of grant	Exercise Period
Director								
Mr. Tao	1,000,000	–	–	(250,000)	750,000	HK$0.7	26-3-2010	(a)
Continuous contract employees	11,400,000	–	–	(8,100,000)	3,300,000	HK$0.7	26-3-2010	(a)
Other participate								
Consultants	1,600,000	–	–	(400,000)	1,200,000	HK$0.7	26-3-2010	(a)
A consultant	1,000,000	–	–	(1,000,000)	–	HK$0.348	31-8-2011	(b)
	15,000,000	–	–	(9,750,000)	5,250,000			

Notes:

(a) Of the 5,250,000 share options, 1,750,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013, and 3,500,000 share options will be exercisable during the period from 26 March 2013 to 25 March 2014. The closing price of the shares of the Company immediately before the date on which these share options were granted was HK$0.67 per share.

(b) The options were exercisable during the period from 31 August 2011 to 30 August 2012. The closing price of the shares of the Company immediately before the date on which these share options were granted was HK$0.345 per share.

Further details of the Scheme are set out in note 26(a) to the financial statements.

Share Options under a Supply Chain Management Agreement

On 11 August 2011, Perception Digital Technology (BVI) Ltd. ("PDBVI"), an indirect wholly-owned subsidiary of the Company, entered into a supply chain management agreement (the "Supply Chain Agreement") with Teleepoch Limited ("Teleepoch") pursuant to which PDBVI, together with its subsidiaries, will act as the exclusive supply chain partner of Teleepoch for a term of three years. In consideration of Teleepoch entering into the Supply Chain Agreement, the Company entered into an option agreement with Teleepoch, pursuant to which the Company granted an option to Teleepoch, entitling Teleepoch to subscribe for a maximum of 15,500,000 shares of the Company (the "Upfront Option"), representing approximately 2.5% of the existing issued share capital of the Company, at the exercisable price of HK$0.38 per share. The Upfront Option was vested on 11 November 2011 and is exercisable in whole or in part during the period from 11 November 2011 to 10 August 2016.

In addition to the Up Front Option, the Company also conditionally granted to Teleepoch an option to subscribe for 0.285 shares of the Company (the "Performance Option") at the exercise price of HK$0.38 for every HK$1.0 of net profit to the Company generated from sales orders placed by the clients of Teleepoch ("Performance Benchmark"), subject to a maximum of 46,750,000 shares of the Company, representing approximately 7.5% of the existing issued share capital of the Company. On each anniversary date during the term of the Supply Chain Management Agreement, a portion of the Performance Option shall be vested and become exercisable. The number of shares which Teleepoch will be entitled to subscribe for pursuant to such vested portion of the Performance Option shall be determined by reference to the Performance Benchmark for the previous year. Subject to such vesting condition, the Performance Option may be exercised in whole or in part at any time during the period from 11 August 2012 to 10 August 2016.

Further details of the Upfront Option and Performance Option are set out in note 26(b) to the financial statements.

Arrangements to Purchase Shares or Debentures

Other than option holdings disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 16 to 23 of this annual report.

Continuing Connected Transactions

On 28 January 2011, Perception Digital Limited ("PDL"), an indirect wholly-owned subsidiary of the Company, entered into (1) a tenancy agreement ("Tenancy Agreement") with Welleader Group Limited ("Welleader"), a company wholly-owned by Ms. Loh, the spouse of Dr. Lau, an executive director and the Chief Executive Officer of the Company, as the landlord for the leasing of an office premises located at 18th Floor of Fortis Tower, No. 77-79 Gloucester Road, Hong Kong with gross floor area of 3,550 sq. ft.; and (2) a sublease agreement ("Sublease Agreement") with Comose Holdings Limited ("Comose"), a company owed as to 60% by Dr. Wu, a former independent non-executive director of the Company, as the lessor and Welleader as the sublessor for the leasing of an office premises located at 21st Floor of Fortis Tower, No. 77-79 Gloucester Road, Hong Kong with gross floor area of 6,350 sq. ft. (collectively, the "Agreements"). The aforementioned office premises were used by the Company and certain of its subsidiaries for office use. Further details of the leases were set out in an announcement and a supplemental announcement of the Company dated 26 January 2011 and 31 January 2011, respectively (collectively, the "Lease Announcements"). During the year ended 31 December 2012, the Group entered into two termination agreements with Welleader on 20 August 2012 and 24 December 2012 to early terminate the Tenancy Agreement and Sublease Agreement (collectively, the "Termination Agreements"), respectively, with effect from 20 August 2012 and 24 December 2012.

As Welleader, Ms. Loh, Dr. Lau, Dr. Wu and Comose are connected persons of the Company with the meaning of the Listing Rules, the transactions under the Agreements constituted connected continuing transactions, and the transactions under the Termination Agreements constituted connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The INEDs confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

The INEDs also confirmed that the above-mentioned connected transactions were entered into in normal commercial terms, were fair and reasonable and in the interests of the Company and its shareholders as a whole. Further details of the terminations are set out in the announcements of the Company dated 20 August 2012 and 24 December 2012, respectively.

As disclosed in the Lease Announcements, the aggregate annual amount payable by the Group under the Agreements for the twelve-month period ended 27 January 2013 should not exceed an annual cap of HK$3,720,000. The rental expense recognised by the Group for the financial year ended 31 December 2012 in respect of the above-mentioned leases (net of the effect of applicable rent-free period over the lease terms) amounted to approximately HK$3,520,000 (2011: HK$3,246,000).

Ernst & Young, the Company's auditors, were engaged to report to the Board on the Group's above-mentioned continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusion in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

Event after the Reporting Period

Subsequent to the end of the reporting period on 27 February 2013, the Group issued a prospectus ("Prospectus") pursuant to which the Company proposed an open offer ("Open Offer") to issue not less than 311,250,000 shares of the Company ("Offer Shares") to the existing shareholders on the basis of one Offer Share for every two shares at a subscription price of HK$0.1286 per Offer Share. Pursuant to the announcement of the Company dated 19 March 2013 (the "Announcement"), the Open Offer became unconditional and a total of 311,250,000 Offer Shares were issued on 20 March 2013. The dealing of the Offer Shares was commenced on the Stock Exchange on 21 March 2013. Further details of the Open Offer were disclosed in the Prospectus and the Announcement. The Company received net proceeds of approximately HK$38.1 million from the Open Offer.

Auditors

The financial statements for the year ended 31 December 2012 have been audited by Ernst & Young, the auditors of the Company. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting. There has been no change in the auditors of the Company in any of the preceding years since the Listing.

On behalf of the Board

Dr. Lau, Jack
Chairman

Hong Kong, 25 March 2013

Independent Auditors' Report

安 永

To the shareholders of Perception Digital Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Perception Digital Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
REVENUE	5	**340,869,541**	533,406,703
Cost of sales		**(315,323,262)**	(486,958,388)
Gross profit		**25,546,279**	46,448,315
Other income and gain	5	**1,358,878**	8,748,028
Research and development costs		**(23,678,720)**	(8,321,705)
Selling and distribution expenses		**(16,188,543)**	(13,923,258)
General and administrative expenses		**(39,304,434)**	(45,467,014)
Other expenses, net		**(37,187,744)**	(7,435,420)
Finance costs	6	**(8,556,469)**	(5,434,911)
LOSS BEFORE TAX	7	**(98,010,753)**	(25,385,965)
Income tax credit	10	**1,364,311**	3,397,094
LOSS FOR THE YEAR		**(96,646,442)**	(21,988,871)
Attributable to:			
Owners of the parent	11	**(96,646,442)**	(21,988,871)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	**HK cents**	HK cents
Basic and diluted		**(15.5)**	(3.5)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 HK$	2011 HK$
LOSS FOR THE YEAR	**(96,646,442)**	(21,988,871)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**321,520**	687,630
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(96,324,922)**	(21,301,241)
Attributable to:		
Owners of the parent	**(96,324,922)**	(21,301,241)

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$	2011 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7,507,826**	9,229,064
Deferred development costs	14	**34,140,404**	35,427,233
Long term deposits	18	**446,806**	2,614,748
Deferred tax assets	24	**2,406,665**	2,406,665
Total non-current assets		**44,501,701**	49,677,710
CURRENT ASSETS			
Inventories	16	**26,615,330**	46,512,587
Trade receivables	17	**78,928,766**	153,744,297
Prepayments, deposits and other receivables	18	**41,957,100**	67,043,273
Tax recoverable		**1,390,035**	1,042,526
Pledged deposits	19	**16,195,487**	16,960,903
Cash and cash equivalents	19	**43,155,687**	40,365,986
Total current assets		**208,242,405**	325,669,572
CURRENT LIABILITIES			
Trade payables	20	**84,403,598**	167,896,256
Other payables and accruals	21	**20,617,930**	27,391,762
Interest-bearing bank and other borrowings	22	**92,056,996**	70,182,220
Tax payable		**852,174**	833,767
Provision	23	**977,031**	1,634,537
Total current liabilities		**198,907,729**	267,938,542
NET CURRENT ASSETS		**9,334,676**	57,731,030
TOTAL ASSETS LESS CURRENT LIABILITIES		**53,836,377**	107,408,740

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$	2011 HK$
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	**44,979,236**	7,393,825
Deferred tax liabilities	24	**63,607**	1,397,528
Total non-current liabilities		**45,042,843**	8,791,353
Net assets		**8,793,534**	98,617,387
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	**62,250,000**	62,250,000
Reserves	27(a)	**(53,456,466)**	36,367,387
Total equity		**8,793,534**	98,617,387

Lau, Jack
Director

Tsui, Chi Ying
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	Issued capital HK$	Share premium account HK$	Capital reserve HK$ (note 27(a))	Warrant reserve HK$ (note 25)	Share option reserve HK$ (note 26)	Exchange fluctuation reserve HK$	Accumulated losses HK$	Total equity HK$
At 1 January 2011		62,250,000	43,490,307	46,935,776	–	1,434,295	1,540,394	(36,054,353)	119,596,419
Loss for the year		–	–	–	–	–	–	(21,988,871)	(21,988,871)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	687,630	–	687,630
Total comprehensive income/(loss) for the year		–	–	–	–	–	687,630	(21,988,871)	(21,301,241)
Equity-settled share option arrangements	26	–	–	–	–	3,434,709	–	–	3,434,709
Transfer of share option reserve upon the forfeiture of share options		–	–	–	–	(37,851)	–	37,851	–
Final 2010 dividend declared		–	–	(3,112,500)	–	–	–	–	(3,112,500)
At 31 December 2011 and at 1 January 2012		**62,250,000**	**43,490,307**	**43,823,276**	**–**	**4,831,153**	**2,228,024**	**(58,005,373)**	**98,617,387**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(96,646,442)**	**(96,646,442)**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**321,520**	**–**	**321,520**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**321,520**	**(96,646,442)**	**(96,324,922)**
Equity-settled share option arrangements	26	**–**	**–**	**–**	**–**	**(547,174)**	**–**	**–**	**(547,174)**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**–**	**(1,190,440)**	**–**	**1,190,440**	**–**
Issue of warrants	25	**–**	**–**	**–**	**7,048,243**	**–**	**–**	**–**	**7,048,243**
At 31 December 2012		**62,250,000**	**43,490,307***	**43,823,276***	**7,048,243***	**3,093,539***	**2,549,544***	**(153,461,375)***	**8,793,534**

* These reserve accounts comprise the consolidated negative reserves of HK$53,456,466 (2011: consolidated positive reserves of HK$36,367,387) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(98,010,753)**	(25,385,965)
Adjustments for:			
Finance costs	6	**8,556,469**	5,434,911
Interest income	5	**(144,400)**	(7,076,731)
Depreciation	7	**3,807,322**	3,563,335
Amortisation of deferred development costs	7	**17,359,145**	11,897,552
Impairment of items of property, plant and equipment	7	**420,780**	–
Impairment of deferred development costs	7	**8,262,712**	2,696,891
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**102,137**	(12,509)
Write-off of items of property, plant and equipment	7	**546,406**	–
Impairment of trade receivables	7	**9,750,614**	4,484,428
Impairment of other receivables	7	**7,509,945**	–
Write-off of inventories	7	**10,820,051**	–
Write-down of inventories to net realisable value, net	7	**5,223,259**	1,116,464
Loss/(gain) on transfer arising from factoring of trade receivables	7	**(224,901)**	254,101
Equity-settled share option expense/(reversal of equity-settled share option expense)	26	**(547,174)**	3,434,709
		(26,568,388)	407,186
Decrease/(increase) in inventories		**3,857,841**	(11,128,971)
Decrease in trade receivables		**65,090,417**	30,331,469
Decrease/(increase) in prepayments, deposits and other receivables		**13,980,832**	(46,961,049)
Increase/(decrease) in trade payables		**(83,492,840)**	42,607,851
Increase/(decrease) in other payables and accruals		**(1,458,371)**	16,862,529
Increase/(decrease) in provision		**(657,506)**	743,395
Cash generated from/(used in) operations		**(29,248,015)**	32,862,410
Hong Kong profits tax paid		**(347,509)**	(2,224,193)
Overseas tax paid		**(11,079)**	–
Net cash flows from/(used in) operating activities		**(29,606,603)**	30,638,217

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits for purchase of items of property, plant and equipment		**(220,867)**	(872,119)
Purchases of items of property, plant and equipment		**(2,730,023)**	(8,006,051)
Proceeds from disposal of items of property, plant and equipment		**694,964**	463,725
Additions to deferred development costs		**(24,149,726)**	(27,505,712)
Decrease/(increase) in pledged deposits		**765,416**	(7,777,527)
Bank interest received		**144,400**	97,598
Net cash flows used in investing activities		**(25,495,836)**	(43,600,086)
CASH FLOWS FROM FINANCING ACTIVITIES			
New other borrowings		**53,000,000**	–
Repayment of other borrowings		**(3,000,000)**	–
New bank loans		**381,246,986**	263,452,941
Repayment of bank loans		**(376,992,537)**	(241,259,885)
Dividend paid		**–**	(3,112,500)
Interest and bank charges paid		**(7,930,505)**	(5,272,421)
Net cash flows from financing activities		**46,323,944**	13,808,135
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(8,778,495)**	846,266
Cash and cash equivalents at beginning of year		**40,365,986**	39,497,771
Effect of foreign exchange rate changes, net		**5,473**	21,949
CASH AND CASH EQUIVALENTS AT END OF YEAR		**31,592,964**	40,365,986
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**33,144,937**	40,365,986
Non-pledged time deposits with original maturity of less than three months when acquired		**10,010,750**	–
Cash and cash equivalents as stated in the statement of financial position		**43,155,687**	40,365,986
Bank overdrafts	22	**(11,562,723)**	–
Cash and cash equivalents as stated in the statement of cash flows		**31,592,964**	40,365,986

Statement of Financial Position

31 December 2012

	Notes	2012 HK$	2011 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**23,102,758**	92,178,770
CURRENT ASSETS			
Prepayments	18	**375**	2,042
Cash and cash equivalents	19	**30,315,505**	29,311,226
Total current assets		**30,315,880**	29,313,268
CURRENT LIABILITIES			
Other payables and accruals	21	**913,946**	479,775
Other borrowing	22	**2,785,985**	–
Total current liabilities		**3,699,931**	479,775
NET CURRENT ASSETS		**26,615,949**	28,833,493
TOTAL ASSETS LESS CURRENT LIABILITIES		**49,718,707**	121,012,263
NON-CURRENT LIABILITY			
Other borrowing	22	**40,857,030**	–
Net assets		**8,861,677**	121,012,263
EQUITY			
Issued capital	25	**62,250,000**	62,250,000
Reserves	27(b)	**(53,388,323)**	58,762,263
Total equity		**8,861,677**	121,012,263

Lau, Jack
Director

Tsui, Chi Ying
Director

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. The principal place of business of the Company in Hong Kong is located at Unit 311, 3rd Floor, Core Building 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

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

2.1 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The Group has applied for the first time the amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets* in the current year. The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement.

The adoption of HKFRS 7 Amendments has enhanced the Group's disclosures in these financial statements for transferred trade receivables that are not derecognised in their entirety. The relevant disclosures have been made in note 32 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption* of *Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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 recognised 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.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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/amortisation) had no impairment loss been recognised 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised 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 amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production or when the intangible assets are available for use.

Investments and other financial assets

Initial recognition and measurement

Financial assets of the Group within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement *(continued)*

All regular way purchases and sales of financial assets are recognised 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.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised 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 derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable 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 consolidated statement 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised 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 recognised 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.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

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 recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recongnised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced deprecation charge.

Revenue recognition

Revenue is recognised 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 inventories with the same counterparty that are entered into in contemplation of one another are considered to be a single non-monetary transaction. As such, revenue is not recognised for sale of inventories to the counterparty under such type of transaction;

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

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

(d) rental income, on a time proportion basis over the lease terms; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants (including directors, employees and consultants of the Company and its subsidiaries) who render services and/or contribute to the success of the Group's operations. Employees (including directors) and consultants of the Group receive remuneration in the form of share-based payments, whereby employees/consultants render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised 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 recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employees/consultants 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 recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 utilised by the respective employees in the following period. An accrual is made at the end of each 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 benefit 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.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The Company's functional currency is the United States dollar. The Company has adopted the 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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.

The functional currencies of certain of the Group's subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing 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 year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of such an entity, the component of other comprehensive income relating to that particular entity is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Group's subsidiaries of 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 prevailing at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 recognised in the financial statements:

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 currency of each entity of the Group, judgement is required to determine and consider the currency that mainly influences 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 currency of each entity of the Group is 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 capitalised and deferred in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Initial capitalisation 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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.

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 year, are described 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 receivables arising from the inability of its debtors to make the required payments. The Group makes its estimates based on, inter alia, the ageing of its 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 useful lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

Net realisable 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 realisable 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 recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the future 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 recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Determining the amounts to be capitalised 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 estimated economic useful lives of the property, plant and equipment. 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

Management determines the estimated useful lives of the Group's deferred development costs for the calculation of amortisation 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/assets in which the deferred development costs relate to. Management reviews the estimated useful lives on an annual basis and future amortisation charges are adjusted where management believes the useful lives differ from previous estimates.

Provision for warranties

The Group makes provisions for the warranties granted on sale of products taking into account the Group's historical claim experience. The assessment of provision amount involves management's judgements and estimates in relation to the costs to repair or replace defective products, including labour and material costs, and costs that may not be recoverable from suppliers, either in accordance with contractual terms or the Group's policy. As the Group is continually upgrading its product designs and launching new models, it is possible that the historical claim experience is not indicative of future claims that the Group will receive in respect of past sales. Where the actual outcome or expectation in future is different from the original estimates, the difference will impact the carrying amount of the provision for warranties and the provision amount charged/reversed in the period in which such estimates have been changed.

4. OPERATING SEGMENT INFORMATION

The Group focuses on the research, design, development and sale of DSP-based consumer electronic devices, including DSP platform and embedded firmware, the provision of "end-to-end" turnkey solutions to customers for their DSP-based consumer electronic devices, and trading of electronic components. 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 2012 and 2011, and certain non-current asset information as at 31 December 2012 and 2011, by geographical areas.

	European Union HK$	United States of America HK$	Mainland China HK$	Hong Kong HK$	Others HK$	Total HK$
Year ended 31 December 2012						
Revenue from external customers	98,876,212	117,604,743	13,292,312	67,349,388	43,746,886	340,869,541
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
As at 31 December 2012						
Non-current assets (excluding deferred tax assets)	–	–	13,803,756	28,291,280	–	42,095,036
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	13,540,000	28,291,280	–	41,831,280
As at 31 December 2011						
Non-current assets (excluding deferred tax assets)	–	–	15,023,970	32,247,075	–	47,271,045
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	14,307,661	31,317,075	–	45,624,736

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.

Information about major customers

Revenues of HK$243,250,131 (2011: HK$364,585,318) and HK$37,086,095 (2011: HK$67,518,263) were derived from transactions with two customers, which individually amounted to 10 per cent or more of the Group's total revenue for the year.

5. REVENUE, OTHER INCOME AND GAIN

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, other income and gain is as follows:

	Group	
	2012	2011
	HK$	HK$
Revenue		
Sale of goods	**337,150,028**	515,308,512
Rendering of services	**3,560,973**	14,974,072
Royalty income	**158,540**	3,124,119
	340,869,541	533,406,703
Other income		
Bank interest income	**144,400**	97,598
Other interest income	**–**	6,979,133
Government subsidies	**578,447**	248,953
Gross rental income from a sublease arrangement	**435,774**	–
Others	**200,257**	1,409,835
	1,358,878	8,735,519
Gain		
Gain on disposal of items of property, plant and equipment, net	**–**	12,509
	1,358,878	8,748,028

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	HK$	HK$
Interest on bank loans, overdrafts and other loan wholly repayable within five years	**4,799,555**	2,696,110
Bank charges	**1,284,874**	930,911
Other finance costs on trade receivables factored:		
Bank interest	**1,720,383**	913,565
Bank charges	**751,657**	894,325
	8,556,469	5,434,911

7. LOSS BEFORE TAX

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

		Group	
	Notes	2012 HK$	2011 HK$
Cost of inventories sold and services provided		**315,323,262**	486,958,388
Depreciation	13	**3,807,322**	3,563,335
Research and development costs:			
Deferred expenditure amortised^	14	**17,359,145**	11,897,552
Current year expenditure		**23,678,720**	8,321,705
		41,037,865	20,219,257
Minimum lease payments under operating leases:			
Land and buildings		**5,919,997**	6,647,271
Office equipment		**131,379**	121,824
Motor vehicles		**193,536**	242,181
		6,244,912	7,011,276
Auditors' remuneration		**1,380,000**	1,380,000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages, salaries, allowances, bonuses and benefits in kind		**47,403,346**	57,437,039
Termination benefits		**5,880,180**	–
Equity-settled share option expense/(reversal of equity-settled share option expense)		**(147,309)**	1,229,744
Pension scheme contributions (defined contribution schemes)##		**2,780,672**	2,895,520
		55,916,889	61,562,303
Less: Amount capitalised		**(24,149,726)**	(27,505,712)
		31,767,163	34,056,591
Foreign exchange differences, net		**346,066**	65,596
Government subsidies#		**(578,447)**	(248,953)
Impairment of items of property, plant and equipment*	13	**420,780**	–
Impairment of deferred development costs*	14	**8,262,712**	2,696,891
Impairment of trade receivables*	17	**9,750,614**	4,484,428
Impairment of other receivables*	18	**7,509,945**	–
Write-off of inventories*		**10,820,051**	–
Write-down of inventories to net realisable value, net^		**5,223,259**	1,116,464
Loss/(gain) on transfer arising from factoring of trade receivables*		**(224,901)**	254,101
Product warranty provision	23	**1,850,047**	1,634,537
Loss/(gain) on disposal of items of property, plant and equipment, net		**102,137***	(12,509)
Write-off of items of property, plant and equipment*		**546,406**	–

7. LOSS BEFORE TAX (continued)

* The impairment of items of property, plant and equipment, the impairment of deferred development costs, the impairment of trade receivables, the impairment of other receivables, the write-off of inventories, the loss/(gain) on transfer arising from factoring of trade receivables, the net loss on disposal of items of property, plant and equipment and the write-off of items of property, plant and equipment are included in "Other expenses, net" on the face of the consolidated income statement.

^ The amortisation of deferred development costs and the net write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

Government grants have been received by a subsidiary of the Group established in the People's Republic of China (the "PRC") for supporting its research and development activities in Mainland China.

At 31 December 2012, the Group had no material forfeited contributions available to reduce its contributions to its pension schemes in future years (2011: Nil).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	HK$	HK$
Fees	**1,569,169**	1,435,000
Other emoluments:		
Salaries, allowances and benefits in kind	**4,573,904**	5,080,054
Equity-settled share option expense	**51,613**	104,650
Pension scheme contributions (defined contribution scheme)	**27,500**	24,000
	4,653,017	5,208,704
	6,222,186	6,643,704

In prior years, a director was granted share options before his appointment as a director of the Company, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 26(a) to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements, for the current and prior years are included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2012 HK$	2011 HK$
Dr. Lam Lee, Kiu Yue Alice Piera	**224,167**	205,000
Mr. Shu, Wa Tung Laurence	**224,167**	205,000
Prof. Chin, Tai Hong Roland	**224,167**	205,000
	672,501	615,000

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors and non-executive directors

	Fees HK$	Salaries, allowances and benefits in kind HK$	Equity-settled share option expense HK$	Pension scheme contributions HK$	Total remuneration HK$
2012					
Executive directors:					
Dr. Lau, Jack	224,167	3,181,904	–	13,750	3,419,821
Mr. Tao, Hong Ming	224,167	1,392,000	51,613	13,750	1,681,530
	448,334	4,573,904	51,613	27,500	5,101,351
Non-executive directors:					
Prof. Tsui, Chi Ying	224,167	–	–	–	224,167
Prof. Cheng, Roger Shu Kwan	224,167	–	–	–	224,167
	448,334	–	–	–	448,334
	896,668	4,573,904	51,613	27,500	5,549,685

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees HK$	Salaries, allowances and benefits in kind HK$	Equity-settled share option expense HK$	Pension scheme contributions HK$	Total remuneration HK$
2011					
Executive directors:					
Dr. Lau, Jack	205,000	3,640,054	–	12,000	3,857,054
Mr. Tao, Hong Ming	205,000	1,440,000	104,650	12,000	1,761,650
	410,000	5,080,054	104,650	24,000	5,618,704
Non-executive directors:					
Prof. Tsui, Chi Ying	205,000	–	–	–	205,000
Prof. Cheng, Roger Shu Kwan	205,000	–	–	–	205,000
	410,000	–	–	–	410,000
	820,000	5,080,054	104,650	24,000	6,028,704

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: two) directors, details of whose remuneration are set out in note 8 to the financial statements. Details of the remuneration for the year of the remaining three (2011: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group 2012 HK$	Group 2011 HK$
Salaries, allowances, bonuses and benefits in kind	**2,385,627**	2,665,220
Termination benefits	**295,200**	–
Equity-settled share option expense/(reversal of equity-settled share option expense)	**(99,259)**	139,533
Pension scheme contributions (defined contribution scheme)	**37,500**	36,000
	2,619,068	2,840,753

9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director highest-paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

In prior years, share options were granted to two (2011: three) non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 26(a) to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements for the current and prior years are included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2012	2011
	HK$	HK$
Group:		
Current – Hong Kong		
– Overprovision in prior years	**–**	(1,070)
Current – Elsewhere		
– Charge for the year	**11,079**	220,823
– Overprovision in prior years	**–**	(274,544)
	11,079	(54,791)
Deferred (note 24)	**(1,375,390)**	(3,342,303)
Total tax credit for the year	**(1,364,311)**	(3,397,094)

10. INCOME TAX (continued)

A reconciliation of the tax credit applicable to loss before tax at the Hong Kong statutory tax rate (the statutory tax rate for the jurisdiction in which the majority of the Group's operating subsidiaries are domiciled) to the tax credit at the Group's effective tax rate is as follows:

	Group	
	2012	2011
	HK$	HK$
Loss before tax	**(98,010,753)**	(25,385,965)
Hong Kong statutory tax rate	**16.5%**	16.5%
Tax credit at the Hong Kong statutory tax rate	**(16,171,774)**	(4,188,684)
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	**189,973**	(90,915)
Adjustments in respect of current tax of prior periods	**–**	(275,614)
Income not subject to tax	**(42,383)**	(75,094)
Expenses not deductible for tax	**803,868**	1,441,568
Tax losses utilised from prior periods	**–**	(256,833)
Tax losses not recognised	**13,729,208**	–
Others	**126,797**	48,478
Tax credit at the Group's effective tax rate	**(1,364,311)**	(3,397,094)

A subsidiary of the Group established and operating in the Shenzhen Special Economic Zone of the PRC 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 tax rate reductions under concession policies 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. In addition, the Group's subsidiary established in the PRC has obtained the status of National High-Tech Enterprise and, accordingly, is entitled to a lower PRC corporate income tax rate of 15% for the years ended 31 December 2012 and 2011.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$118,651,655 (2011: HK$3,890,584) which has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share is based on:

	2012 HK$	2011 HK$
Loss		
Loss for the year attributable to ordinary equity holders of the parent	**(96,646,442)**	(21,988,871)

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year	**622,500,000**	622,500,000

The calculation of basic loss per share amounts is based on the 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.

The diluted loss per share amounts for the current and prior years equal to the basic loss per share amounts. No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the share options and warrants of the Company had no dilutive effect on the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	14,799,412	2,061,291	2,359,580	11,827,819	1,273,264	32,321,366
Accumulated depreciation and impairment	(9,168,076)	(1,633,269)	(677,299)	(11,294,654)	(319,004)	(23,092,302)
Net carrying amount	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
At 1 January 2012, net of accumulated depreciation and impairment	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
Additions	1,099,338	–	1,282,427	1,006,257	348,257	3,736,279
Disposals	(377,217)	–	–	–	(419,884)	(797,101)
Write-off	–	–	(546,406)	–	–	(546,406)
Impairment	–	–	–	(420,780)	–	(420,780)
Depreciation provided during the year	(2,013,150)	(176,833)	(791,497)	(550,757)	(275,085)	(3,807,322)
Exchange realignment	76,140	–	30,574	–	7,378	114,092
At 31 December 2012, net of accumulated depreciation and impairment	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826
At 31 December 2012:						
Cost	12,019,733	2,061,291	2,503,200	12,641,177	968,101	30,193,502
Accumulated depreciation and impairment	(7,603,286)	(1,810,102)	(845,821)	(12,073,292)	(353,175)	(22,685,676)
Net carrying amount	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2011						
At 1 January 2011:						
Cost	10,676,491	1,762,236	686,177	17,299,260	531,118	30,955,282
Accumulated depreciation and impairment	(8,225,653)	(1,337,581)	(648,663)	(15,994,167)	(98,031)	(26,304,095)
Net carrying amount	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187
At 1 January 2011, net of accumulated depreciation and impairment	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187
Additions	4,920,749	299,055	2,186,731	341,889	728,430	8,476,854
Disposals	(46,311)	–	(22,905)	(382,000)	–	(451,216)
Depreciation provided during the year	(1,787,351)	(295,688)	(531,841)	(731,817)	(216,638)	(3,563,335)
Exchange realignment	93,411	–	12,782	–	9,381	115,574
At 31 December 2011, net of accumulated depreciation and impairment	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
At 31 December 2011:						
Cost	14,799,412	2,061,291	2,359,580	11,827,819	1,273,264	32,321,366
Accumulated depreciation and impairment	(9,168,076)	(1,633,269)	(677,299)	(11,294,654)	(319,004)	(23,092,302)
Net carrying amount	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064

During the year ended 31 December 2012, the directors reassessed the recoverable amounts of certain items of toolings with reference to the changes in technological, market and economic environment, and estimated sales orders of the relevant products, and considered that a provision for impairment of HK$420,780 should be made for items that had become obsolete. In the opinion of the directors, such items do not have any material fair value less costs to sell or value in use that could be recovered and, accordingly, a full provision has been made.

14. DEFERRED DEVELOPMENT COSTS

	Group	
	2012	2011
	HK$	HK$
Cost at 1 January, net of accumulated amortisation and impairment	**35,427,233**	22,190,769
Additions – internal development	**24,149,726**	27,505,712
Amortisation provided during the year	**(17,359,145)**	(11,897,552)
Impairment during the year	**(8,262,712)**	(2,696,891)
Exchange realignment	**185,302**	325,195
At 31 December	**34,140,404**	35,427,233
At 31 December:		
Cost	**59,703,281**	55,591,875
Accumulated amortisation and impairment	**(25,562,877)**	(20,164,642)
Net carrying amount	**34,140,404**	35,427,233

The impairment recognised during the years ended 31 December 2012 and 2011 mainly reflected the decrease in the recoverable amounts of certain electronic device development projects of the Group primarily as a result of a decrease in the future revenue that the Group expects to derive from these projects. In the opinion of the directors, the related deferred development costs do not have any material fair value less costs to sell or value in use that could be recovered and, accordingly, a full provision has been made.

15. INTERESTS IN SUBSIDIARIES

	Company 2012 HK$	Company 2011 HK$
Unlisted investments, at cost	**10,144,507**	10,144,507
Due from subsidiaries	**127,810,055**	82,034,263
Impairment	**(114,851,804)**	–
	23,102,758	92,178,770

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The movement in provision for impairment of amounts due from subsidiaries is as follows:

	Company 2012 HK$	Company 2011 HK$
At 1 January	**–**	–
Impairment losses recognised	**114,851,804**	–
At 31 December	**114,851,804**	–

15. INTERESTS IN SUBSIDIARIES (continued)

A provision for impairment of HK$114,851,804 (2011: Nil) was recognised for individually impaired amounts due from subsidiaries with a total carrying amount before provision of HK$127,810,055 (2011: Nil) because the recoverable amounts thereof, based on their estimated future cash flows, reflecting changes in economic and business conditions, were lower than their carrying amounts.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Perception Digital Technology (BVI) Ltd. ("Perception Digital BVI")	British Virgin Islands/ Hong Kong	US$13,197.70	100	–	Investment holding
Perception Digital Limited	Hong Kong	HK$67,690	–	100	Research, design, development and sale of DSP-based consumer electronic devices, including DSP platform and embedded firmware, the provision of turnkey solutions, and trading of electronic components
PD Trading (Hong Kong) Limited	Hong Kong	HK$2	–	100	Research, design, development and sale of DSP-based consumer electronic devices, including DSP platform and embedded firmware, the provision of turnkey solutions, and trading of electronic components
IWC Digital Limited	Hong Kong	HK$2	–	100	Inactive
幻音科技(深圳)有限公司*	PRC/Mainland China	HK$16,060,000	–	100	Research and development of DSP platform and provision of embedded firmware

* This entity is registered as a wholly-foreign-owned enterprise under PRC law and its statutory financial statements are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

16. INVENTORIES

	Group	
	2012	2011
	HK$	HK$
Raw materials and components	**18,000,121**	36,537,421
Work in progress	**636,637**	5,251,510
Finished goods	**7,978,572**	4,723,656
	26,615,330	46,512,587

17. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$	HK$
Trade receivables	**94,320,607**	159,385,524
Impairment	**(15,391,841)**	(5,641,227)
	78,928,766	153,744,297

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.

Trade receivables are non-interest-bearing, except for two individual balances of HK$7,616,643 (2011: HK$10,626,741) and HK$1,181,711 (2011: HK$9,058,617) which bear interest at 1.6% per month and 14% per annum, respectively.

The Group does not hold any collateral or other credit enhancements over its trade receivables, except for an individual trade receivable as at 31 December 2012 of HK$7,616,643 (2011: HK$10,626,741), which is secured by an intellectual property of a customer of the Group, further details of which are included in note 18 to the financial statements, and an individual trade receivable as at 31 December 2011 of HK$9,058,617, which was secured by certain inventories of another customer of the Group.

17. TRADE RECEIVABLES (continued)

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

	Group	
	2012 HK$	2011 HK$
Within 30 days	**16,656,806**	81,970,264
31 to 60 days	**11,704,386**	42,178,655
61 to 90 days	**3,762,419**	3,673,724
Over 90 days	**46,805,155**	25,921,654
	78,928,766	153,744,297

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2012 HK$	2011 HK$
At 1 January	**5,641,227**	1,156,799
Impairment losses recognised (note 7)	**9,750,614**	4,484,428
At 31 December	**15,391,841**	5,641,227

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$15,391,841 (2011: HK$5,641,227) with a carrying amount before provision of HK$19,221,481 (2011: HK$15,293,524). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and none or only a portion of the receivables is expected to be recovered.

17. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$	HK$
Neither past due nor impaired	**26,050,640**	92,706,811
Less than 31 days past due	**3,805,788**	41,890,416
31 to 60 days past due	**742,965**	2,332,505
61 to 90 days past due	**388,389**	1,875,488
Over 90 days past due	**44,111,344**	5,286,780
	75,099,126	144,092,000

Trade receivables that were neither past due nor impaired relate to a sizeable number of customers for whom there was no recent history of default or are major/strategic customers of the Group.

Trade receivables that were past due but not impaired relate to a 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 or relationship/arrangement with the debtors and the balances are still considered fully recoverable.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Prepayments	**1,709,267**	14,997,079	**375**	2,042
Deposits and other receivables	**48,320,498**	54,660,942	**–**	–
	50,029,765	69,658,021	**375**	2,042
Impairment	**(7,625,859)**	–	**–**	–
	42,403,906	69,658,021	**375**	2,042
Less: Portion classified as non-current assets	**(446,806)**	(2,614,748)	**–**	–
Current portion	**41,957,100**	67,043,273	**375**	2,042

Other receivables are non-interest-bearing, except for two individual balances of HK$20,058,594 (2011: HK$17,016,081) and HK$10,601,167 (2011: HK$14,206,589) which bear interest at 1.6% per month and 14% per annum, respectively.

An other receivable of HK$20,058,594 (2011: HK$17,016,081) and a trade receivable of the Group of HK$7,616,643 (2011: HK$10,626,741) as at 31 December 2012 were secured by an intellectual property of a customer of the Group.

An other receivable of HK$14,206,589 and a trade receivable of the Group of HK$9,058,617 as at 31 December 2011 were secured by certain inventories of another customer of the Group.

The movements in provision for impairment of other receivables are as follows:

	Group	
	2012 HK$	2011 HK$
At 1 January	**–**	–
Impairment losses recognised (note 7)	**7,509,945**	–
Exchange realignment	**115,914**	–
At 31 December	**7,625,859**	–

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK$7,625,859 (2011: Nil) with a carrying amount before provision of HK$10,601,167 (2011: Nil). The individually impaired other receivables relate to a debtor of the Group that is in default in payments and only a portion of the receivables is expected to be recovered.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Except for financial assets relating to the provision for impairment of other receivables, none of the above assets is impaired at the end of the reporting period and the financial assets relate to deposits and receivables for which there was no recent history of default or are due from major/strategic customers/debtors of the Group.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Cash and bank balances	**33,144,937**	40,365,986	**20,304,755**	29,311,226
Time deposits	**26,206,237**	16,960,903	**10,010,750**	–
	59,351,174	57,326,889	**30,315,505**	29,311,226
Less: Pledged deposits for banking facilities	**(15,416,361)**	(16,182,563)	**–**	–
Pledged deposit for a licensing arrangement	**(779,126)**	(778,340)	**–**	–
Cash and cash equivalents	**43,155,687**	40,365,986	**30,315,505**	29,311,226

At the end of the reporting period, the cash and bank balances, and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$472,548 (2011: HK$172,177) and HK$25,427,111 (2011: HK$11,357,155), 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 authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

20. 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	
	2012	2011
	HK$	HK$
Within 30 days	**60,086,449**	87,452,320
31 to 60 days	**4,455,626**	40,032,027
Over 60 days	**19,861,523**	40,411,909
	84,403,598	167,896,256

The trade payables are non-interest-bearing and the credit terms generally granted by creditors are 30 to 90 days or 90 days after month-end statement.

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Due to directors	**589,167**	140,000	**589,167**	140,000
Other payables	**15,793,253**	20,999,935	**102,659**	182,875
Accruals	**4,235,510**	6,251,827	**222,120**	156,900
	20,617,930	27,391,762	**913,946**	479,775

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

Other payables are non-interest-bearing and generally have an average credit term of 30 days.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012 Contractual interest rate	2012 Maturity	2012 HK$	2011 Contractual interest rate	2011 Maturity	2011 HK$
Current						
Bank overdrafts – secured	5% to 6%	On Demand	11,562,723	–	–	–
Portion of bank loans due for repayment within one year or on demand – unsecured	4.25% to 5.75%	2013	2,770,948	3.75% to 5.75%	2012	7,240,947
Portion of bank loans due for repayment within one year or on demand – secured	2.68% to 6.75%	2013	74,937,340	2.68% to 6.75%	2012	62,694,081
Portion of a bank loan due for repayment after one year which contains a repayment on demand clause (note (a)) – unsecured	–	–	–	4.25%	2013	247,192
Other borrowing – unsecured	6%	2013	2,785,985	–	–	–
			92,056,996			70,182,220
Non-current						
Portion of bank loans due for repayment after one year – unsecured	5.25% to 5.75%	2014-2015	2,854,899	5.25% to 5.75%	2013 – 2015	5,378,655
Portion of a bank loan due for repayment after one year – secured	6%	2014-2015	1,267,307	6%	2013 – 2015	2,015,170
Other borrowing – unsecured	6%	2014-2017	40,857,030	–	–	–
			44,979,236			7,393,825
			137,036,232			77,576,045

Company

	2012 Contractual interest rate	2012 Maturity	2012 HK$	2011 Contractual interest rate	2011 Maturity	2011 HK$
Current						
Other borrowing – unsecured	6%	2013	2,785,985	–	–	–
Non-current						
Other borrowing – unsecured	6%	2014-2017	40,857,030	–	–	–
			43,643,015			–

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand (note (a))	**89,271,011**	70,182,220	**–**	–
In the second year	**3,325,093**	3,271,620	**–**	–
In the third to fifth years, inclusive	**797,113**	4,122,205	**–**	–
	93,393,217	77,576,045	**–**	–
Other borrowing repayable:				
Within one year	**2,785,985**	–	**2,785,985**	–
In the second year (note (b))	**40,857,030**	–	**40,857,030**	–
	43,643,015	–	**43,643,015**	–
	137,036,232	77,576,045	**43,643,015**	–

Notes:

(a) As at 31 December 2011, a term loan of the Group with a carrying amount of HK$1,210,189 containing a repayment on-demand clause was classified in total as a current liability. Accordingly, a portion of the bank loan due for repayment after one year in the amount of HK$247,192 was included in the current portion of the Group's bank and other borrowings. For the purpose of the above analysis, the loan was included within current interest-bearing bank borrowings and analysed into bank loans and overdrafts repayable within one year or on demand as at 31 December 2011.

(b) An other borrowing of the Company and the Group with a carrying amount of HK$43,643,015 as at 31 December 2012 (2011: Nil) contains a repayment on-demand clause that gives the lender the right to demand the repayment of the other borrowing together with interest accrued thereon at any time on or after 18 January 2014. Accordingly, for the purpose of the above analysis, a portion of the other borrowing due for repayment after one year is analysed into other borrowing repayable in the second year.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Ignoring the effect of any repayment on-demand clause and based on the maturity terms of the bank and other borrowings, the bank and other borrowings are repayable:

	Group		Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	**89,271,011**	69,935,028	**–**	–
In the second year	**3,325,093**	3,518,812	**–**	–
In the third to fifth years, inclusive	**797,113**	4,122,205	**–**	–
	93,393,217	77,576,045	**–**	–
Other borrowing repayable:				
Within one year	**2,785,985**	–	**2,785,985**	–
In the second year	**2,538,188**	–	**2,538,188**	–
In the third to fifth years, inclusive	**38,318,842**	–	**38,318,842**	–
	43,643,015	–	**43,643,015**	–
	137,036,232	77,576,045	**43,643,015**	–

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

In respect of certain short term bank borrowings of approximately HK$44.8 million as at 31 December 2012 provided to certain subsidiaries of the Group by a creditor bank (the "Bank"), the Group was unable to maintain certain financial covenants as specified in the corresponding banking facility letter during the year ended 31 December 2012. On 10 December 2012, the Bank issued a letter to the Group to grant a waiver on the financial covenants for the period ended 30 June 2012 and all the terms and conditions in the existing banking facility letter shall remain unchanged and provided always that the banking facilities shall remain subject to review at any time by the Bank and in any event by the next banking facility review time in 2013. The Group has commenced discussion with the Bank regarding the grant of additional waiver for the year ended 31 December 2012 and beyond due to the non-compliance of the financial covenants. Up to the date of approval of these financial statements, the Bank has not demanded for immediate payment of the outstanding balance.

In respect of certain other short term bank borrowings of approximately HK$9.6 million as at 31 December 2012 provided to a subsidiary of the Group by another creditor bank (the "Other Bank"), the Group was unable to maintain certain financial covenants as specified in the corresponding banking facility letter during the year ended 31 December 2012. The Group maintained a pledged deposit of approximately HK$8.2 million with the Other Bank as at 31 December 2012 in connection with such banking facilities. The Group has commenced discussion with the Other Bank regarding the grant of a waiver for the year ended 31 December 2012 and beyond due to the non-compliance of the financial covenants. Up to the date of approval of these financial statements, the Other Bank has not demanded for immediate payment of the outstanding balance.

Certain of the Group's interest-bearing bank borrowings and general banking facilities are secured by the pledge of certain of the Group's time deposits amounting to HK$16,195,487 (2011: HK$16,960,903) as at 31 December 2012.

The Government of the Hong Kong Special Administrative Region has provided special guarantees for certain of the Group's banking facilities up to a guarantee amount of HK$9,600,000 (2011: HK$9,600,000) as at 31 December 2012.

Except for certain interest-bearing bank borrowings amounting to HK$68,084,785 and HK$62,638,550 as at 31 December 2012 and 2011, respectively, which are denominated in United States dollars, all the interest-bearing bank and other borrowings of the Group are denominated in Hong Kong dollars.

23. PROVISION

Group

	Product warranties HK$
At 1 January 2012	1,634,537
Additional provision (note 7)	1,850,047
Amounts utilised during the year	(2,507,553)
At 31 December 2012	977,031

The Group provides warranties to its customers on certain of its products. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns according to the corresponding contractual sales terms or the Group's policy. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$	Deferred development costs HK$	Total HK$
At 1 January 2011	272,362	3,574,841	3,847,203
Deferred tax charged to the income statement during the year*	51,617	2,082,120	2,133,737
Exchange realignment	–	48,780	48,780
Gross deferred tax liabilities at 31 December 2011 and at 1 January 2012	323,979	5,705,741	6,029,720
Deferred tax credited to the income statement during the year*	(122,034)	(254,451)	(376,485)
Exchange realignment	–	59,155	59,155
Gross deferred tax liabilities at 31 December 2012	201,945	5,510,445	5,712,390

24. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$	Losses available for offsetting against future taxable profits HK$	Warranty provision HK$	Total HK$
At 1 January 2011	69,389	1,346,390	147,038	1,562,817
Deferred tax credited to the income statement during the year*	9,349	5,344,030	122,661	5,476,040
Gross deferred tax assets at 31 December 2011 and at 1 January 2012	78,738	6,690,420	269,699	7,038,857
Deferred tax credited/(charged) to the income statement during the year*	(78,738)	1,186,132	(108,489)	998,905
Exchange realignment	–	17,686	–	17,686
Gross deferred tax assets at 31 December 2012	–	7,894,238	161,210	8,055,448

* Net deferred tax credited to the income statement during the year amounted to HK$1,375,390 (2011: HK$3,342,303) (note 10).

For presentation purposes, certain deferred tax assets and liabilities of the Group that relate to the same taxable entity and the same taxation authority have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	Group	
	2012 HK$	2011 HK$
Net deferred tax assets recognised in the consolidated statement of financial position	**2,406,665**	2,406,665
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(63,607)**	(1,397,528)

24. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of approximately HK$121,421,000 (2011: HK$40,548,000) that are available indefinitely for offsetting against future taxable profits arising in Hong Kong of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK$10,476,000 (2011: Nil) that will expire in five years for offsetting against future taxable profits arising in Mainland China.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the deductable temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised based on management's forecasted future taxable profits, which are based on available taxable temporary differences relating to the same taxation authority and the same taxable entity; whether the unused tax losses resulted from identifiable causes which are unlikely to recur; and the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred tax assets have not been recognised in respect of tax losses of approximately HK$83,465,000 (2011: Nil) as it is not considered probable that future taxable profits will be available against which such tax losses can be utilised.

25. SHARE CAPITAL

Shares

	2012 HK$	2011 HK$
Authorised:		
2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000,000**	200,000,000
Issued and fully paid:		
622,500,000 (2011: 622,500,000) ordinary shares of HK$0.1 each	**62,250,000**	62,250,000

Warrants

During the year ended 31 December 2012, the Group issued unlisted warrants to an independent third party (the "Warrants Subscriber") as part of the conditions for the provision of a loan facility of HK$50 million by the Warrants Subscriber to the Group for a period of 5 years. The warrants entitle the Warrants Subscriber to subscribe up to HK$16,807,500 in aggregate, in cash for ordinary shares of the Company at a subscription price of HK$0.27 each, subject to adjustment, at any time during the period from 31 October 2012 to 30 October 2017. The exercise in full of such warrants would, under the capital structure of the Company as at 31 December 2012, result in the issue of 62,250,000 additional ordinary shares of the Company. Further details of the warrants are set out in an announcement of the Company dated 18 October 2012.

Subsequent to the end of the reporting period, as a result of the completion of the open offer of the shares of the Company in March 2013 as further detailed in note 35 to the financial statements, the subscription price of the outstanding warrants were adjusted pursuant to the terms of the warrants.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS

(a) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants (including directors, employees and consultants of the Company and its subsidiaries) who render services and/or contribute to the success of the Group's operations. Eligible participants of the Scheme include any proposed or existing director, manager or other employee of the Group; any shareholder of the Group; any supplier of goods or services to the Group; any customer, consultant, business or joint venture partner, franchisee, contractor, or agent of any member of the Group; any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and any associate of any of the foregoing persons. The Scheme became effective on 27 November 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; and (iii) the average closing price of the Company's shares listed on the Stock Exchange for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

The following share options were outstanding under the Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	Number of options	Weighted average exercise price HK$ per share	Number of options
At 1 January	**0.677**	**15,000,000**	0.7	14,880,000
Granted during the year	**–**	**–**	0.348	1,000,000
Forfeited during the year	**0.7**	**(5,300,000)**	0.7	(880,000)
Expired during the year	**0.621**	**(4,450,000)**	–	–
At 31 December	**0.7**	**5,250,000**	0.677	15,000,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2012

Number of options	Exercise price* HK$ per share	Exercise period
1,750,000	0.7	26 March 2012 to 25 March 2013
3,500,000	0.7	26 March 2013 to 25 March 2014
5,250,000		

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

2011

Number of options	Exercise price* HK$ per share	Exercise period
3,500,000	0.7	26 March 2011 to 25 March 2012
1,000,000	0.348	31 August 2011 to 30 August 2012
3,500,000	0.7	26 March 2012 to 25 March 2013
7,000,000	0.7	26 March 2013 to 25 March 2014
15,000,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted in the prior year was HK$55,800 (HK$0.0558 each), of which the Group recognised a share option expense of HK$55,800 during the year ended 31 December 2011.

The fair value of equity-settled share options granted in the prior year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	2.90
Expected volatility (%)	43.37
Historical volatility (%)	43.37
Risk-free interest rate (%)	0.36
Expected life of options (year)	1
Weighted average share price (HK$ per share)	0.345

The expected life of the options was based on the historical data and was not necessarily indicative of the exercise patterns that might occur. The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which might also not necessarily be the actual outcome.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(a) Share Option Scheme (continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 5,250,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company as at 31 December 2012, result in the issue of 5,250,000 additional ordinary shares of the Company and additional share capital of HK$525,000 and share premium of HK$3,150,000 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the open offer of the shares of the Company in March 2013 as further detailed in note 35 to the financial statements, the exercise price of the outstanding options and the number of shares that can be subscribed for upon the exercise of the outstanding share options were adjusted with reference to the provisions of the Scheme, Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the interpretation of Rule 17.03(13) of the Listing Rules. At the date of approval of these financial statements, the Company had 4,877,550 share options outstanding under the Scheme, after taking into account the aforementioned adjustments, which represented approximately 0.52% of the Company's shares in issue as at that date.

(b) Share Options under a Supply Chain Management Agreement

On 11 August 2011, Perception Digital BVI, an indirect wholly-owned subsidiary of the Company, entered into a supply chain management agreement (the "Supply Chain Agreement") with Teleepoch Limited ("Teleepoch"), pursuant to which, Perception Digital BVI, together with its subsidiaries, will act as the exclusive supply chain partner of Teleepoch for a term of three years. In consideration of Teleepoch entering into the Supply Chain Agreement, the Company entered into an option agreement (the "Option Agreement") with Teleepoch, pursuant to which the Company granted an option to Teleepoch, entitling Teleepoch to subscribe for a maximum of 15,500,000 ordinary shares of the Company (the "Upfront Option"), representing approximately 2.5% of the existing issued share capital of the Company, at an exercise price of HK$0.38 per share. The Upfront Option was vested on 11 November 2011 and is exercisable in whole or in part during the period from 11 November 2011 to 10 August 2016.

In addition to the Upfront Option, the Company also conditionally granted to Teleepoch an option to subscribe for 0.285 shares of the Company at the exercise price of HK$0.38 per share (the "Performance Option") for every HK$1.0 of net profit to the Company generated from sales orders placed by the clients of Teleepoch (the "Performance Benchmark"), subject to a maximum of 46,750,000 ordinary shares of the Company, representing approximately 7.5% of the existing issued share capital of the Company. On each anniversary date during the term of the Supply Chain Agreement, a portion of the Performance Option shall be vested and become exercisable. The number of shares which Teleepoch will be entitled to subscribe for pursuant to such vested portion of the Performance Option shall be determined by reference to the Performance Benchmark for the previous year. Subject to such vesting condition, the Performance Option may be exercised in whole or in part at any time during the period from 11 August 2012 to 10 August 2016.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(b) Share Options under a Supply Chain Management Agreement (continued)

Both the Upfront Option and the Performance Option (collectively, the "Options") were granted under the general and unconditional mandate granted to the directors of the Company pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 6 May 2011 to allot, issue and deal with up to 20% of the then issued share capital of the Company.

The following Options were outstanding under the Option Agreement during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**0.38**	**62,250,000**	–	–
Conditionally granted during the year	**–**	**–**	0.38	62,250,000
At 31 December	**0.38**	**62,250,000**	0.38	62,250,000

The exercise prices and exercise periods of the Options outstanding as at 31 December 2012 and 2011 are as follows:

Number of Options	**Exercise price*** HK$ per share	**Exercise period**
15,500,000	0.38	11 November 2011 to 10 August 2016
46,750,000^	0.38	11 August 2012 to 10 August 2016^
62,250,000		

* The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

^ The number of Performance Options and the period that the Performance Options become vested and exercisable are subject to the achievement of the Performance Benchmark.

26. EQUITY-SETTLED SHARE OPTION ARRANGEMENTS (continued)

(b) Share Options under a Supply Chain Management Agreement (continued)

The fair value of the Options granted in the prior year was HK$7,305,815 (HK$0.12 each), of which the Group recognised a share option expense of HK$2,204,964 during the year ended 31 December 2011.

The fair value of the goods and services received as consideration for equity-settled Options granted in the prior year was estimated by reference to the fair value of the Options as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the Options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	2.82
Expected volatility (%)	54.94
Historical volatility (%)	54.94
Risk-free interest rate (%)	1.19
Expected life of options (year)	5
Weighted average share price (HK$ per share)	0.355

The expected life of the Options was based on management's best estimate and was not necessarily indicative of the exercise patterns that might occur. The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which might also not necessarily be the actual outcome.

No other feature of the Options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 62,250,000 Options outstanding under the Option Agreement. The exercise in full of the outstanding Options would, under the present capital structure of the Company as at 31 December 2012, result in the issue of 62,250,000 additional ordinary shares of the Company and additional share capital of HK$6,225,000 and share premium of HK$17,430,000 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the open offer of the shares of the Company in March 2013 as further detailed in note 35 to the financial statements, the exercise price of the outstanding Options and the number of shares that can be subscribed for upon the exercise of the outstanding Options were adjusted pursuant to the terms of the Option Agreement. At the date of approval of these financial statements, the Company had 67,472,775 Options outstanding under the Option Agreement, after taking into account the aforementioned adjustments, which represented 7.23% of the Company's shares in issue as at that date.

During the year ended 31 December 2012, the Company recognised a reversal of equity-settled share option expense under HKFRS 2 *Share-based Payment* of HK$547,174 (2011: equity-settled share option expense of HK$3,434,709) for share options granted during the prior years.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 42 of the financial statements.

The Group's capital reserve originally represented (i) the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of Perception Digital BVI issued in exchange therefor pursuant to a group reorganisation in 2000; (ii) the excess of the nominal value of the shares and the share premium account of Perception Digital BVI acquired pursuant to a group reorganisation in 2009, over the nominal value of the Company's shares issued in exchange therefor; and (iii) the waiver of amounts due to certain parties related to certain then beneficial shareholders of the Company.

(b) Company

	Notes	Share premium account HK$	Capital reserve HK$	Warrant reserve HK$	Share option reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2011		43,490,307	10,177,239	–	1,434,295	(1,068,304)	54,033,537
Profit and total comprehensive income for the year		–	–	–	–	4,406,517	4,406,517
Equity-settled share option arrangements	26	–	–	–	3,434,709	–	3,434,709
Transfer of share option reserve upon the forfeiture of share options		–	–	–	(37,851)	37,851	–
Final 2010 dividend declared		–	–	–	–	(3,112,500)	(3,112,500)
At 31 December 2011 and at 1 January 2012		**43,490,307**	**10,177,239**	**–**	**4,831,153**	**263,564**	**58,762,263**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**(118,651,655)**	**(118,651,655)**
Equity-settled share option arrangements	26	**–**	**–**	**–**	**(547,174)**	**–**	**(547,174)**
Transfer of share option reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**(1,190,440)**	**1,190,440**	**–**
Issue of warrants	25	**–**	**–**	**7,048,243**	**–**	**–**	**7,048,243**
At 31 December 2012		**43,490,307**	**10,177,239**	**7,048,243**	**3,093,539**	**(117,197,651)**	**(53,388,323)**

The Company's capital reserve represents (i) the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation in 2009, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the waiver of amounts due to certain parties related to certain then beneficial shareholders of the Company.

27. RESERVES (continued)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited after vesting.

The warrant reserve is in connection with the warrants subscribed which are yet to be exercised as further detailed in note 25 to the financial statements. The amount will either be transferred to the share premium account when the related warrants are exercised, or be transferred to accumulated losses should the related warrants expire.

28. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

As at 31 December 2012, the banking facilities (excluding trade receivable factoring facilities) granted to certain subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$74,173,574 (2011: HK$55,620,434). As at 31 December 2012, the trade receivable factoring facilities granted to a subsidiary subject to a guarantee given to a bank by the Company were utilised to the extent of approximately HK$41,712,806 (2011: HK$89,211,000).

29. OPERATING LEASE ARRANGEMENTS

(a) As sublessor

The Group subleases its office premises under an operating lease arrangement, with the lease negotiated for a term of two years.

At 31 December 2012, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2012 **HK$**	2011 HK$
Within one year	**516,250**	–

(b) As lessee

The Group leases its office premises, certain of its office equipment and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 **HK$**	2011 HK$
Within one year	**1,415,573**	7,092,890
In the second to fifth years, inclusive	**414,227**	7,433,413
	1,829,800	14,526,303

30. RELATED PARTY TRANSACTIONS

In addition to the transactions, arrangements and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) In the prior year, the Group entered into (i) a tenancy agreement with Welleader Group Limited ("Welleader"), a company wholly-owned by the spouse of a director and the chief executive officer of the Company, for the leasing of an office premises by the Group and (ii) a sublease agreement with another company beneficially owned by a substantial shareholder of the Company, with that company as the lessor and Welleader as the sublessor, for the leasing of another office premises by the Group (collectively, the "Leases"). During the year, the Group entered into termination agreement with Welleader whereby the Group and Welleader agreed to early terminate the Leases which would otherwise be expired on 27 January 2014. Neither party is required to pay any penalty or compensation to any other party in respect of the termination of the Leases. Further details of the termination of the Leases are set out in the announcements of the Company dated 20 August 2012 and 24 December 2012.

The rental expense recognised by the Group for the financial year ended 31 December 2012 in respect of the Leases (net of the effect of applicable rent-free period over the lease terms) amounted to approximately HK$3,520,000 (2011: HK$3,246,000).

At 31 December 2011, the Group had operating lease commitments in respect of total future minimum lease payments under the non-cancellable Leases totaling HK$7,710,000, falling due as HK$3,720,000 within one year and HK$3,990,000 in the second to fifth years, inclusive.

In the opinion of the directors of the Company, the above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) During the year, the Group borrowed HK$3 million from a related company pursuant to a loan agreement entered into with a related company, which is beneficially owned by the spouse of a director and the chief executive officer of the Company.

The loan from the related company was unsecured, bore interest at 4.25% per annum and was fully repaid during the year.

The interest expense recognised by the Group for the financial year ended 31 December 2012 in respect of the loan from the related company amounted to approximately HK$39,000 (2011: Nil).

(c) During the year, the Group purchased a motor vehicle from a related company at a consideration of approximately HK$348,000. The spouse of a director and the cheif executive officer of the Company is a member of the key management personnel of a parent of the related company.

30. RELATED PARTY TRANSACTIONS (continued)

(d) During the year, the Group entered into a sale and leaseback transaction in respect of a motor vehicle with a related company, which is beneficially owned by the spouse of a director and the chief executive officer of the Company. The Group disposed of a motor vehicle to the related company at a consideration of HK$260,000 and subsequently leased back the same motor vehicle from the related company at a monthly rent of HK$20,000 for the period from 1 June 2012 to 31 May 2014.

The rental expense recognised by the Group for the financial year ended 31 December 2012 in respect of the sale and leaseback transaction in respect of a motor vehicle amounted to HK$140,000 (2011: Nil).

(e) Compensation of key management personnel of the Group, including amounts paid or payable to the Company's directors, is as follows:

	Group	
	2012	2011
	HK$	HK$
Short term employee benefits	**7,407,865**	8,155,274
Post-employment benefits	**65,000**	60,000
Termination benefits	**295,200**	–
Equity-settled share option expense/(reversal of equity-settled share option expense)	**(47,646)**	244,183
Total compensation paid to key management personnel	**7,720,419**	8,459,457

Further details of directors' emoluments are included in note 8 to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2012	2011
	HK$	HK$
Loans and receivables:		
Trade receivables	**78,928,766**	153,744,297
Financial assets included in prepayments, deposits and other receivables	**40,511,589**	53,692,503
Pledged deposits	**16,195,487**	16,960,903
Cash and cash equivalents	**43,155,687**	40,365,986
	178,791,529	264,763,689

31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group

Financial liabilities

	2012 HK$	2011 HK$
Financial liabilities at amortised cost:		
Trade payables	**84,403,598**	167,896,256
Other payables and accruals	**20,617,930**	27,391,762
Interest-bearing bank and other borrowings	**137,036,232**	77,576,045
	242,057,760	272,864,063

Company

Financial assets

	2012 HK$	2011 HK$
Loans and receivables:		
Due from subsidiaries	**8,636,420**	77,165,259
Cash and cash equivalents	**30,315,505**	29,311,226
	38,951,925	106,476,485

Financial liabilities

	2012 HK$	2011 HK$
Financial liabilities at amortised cost:		
Other payables and accruals	**913,946**	479,775
Other borrowing	**43,643,015**	–
	44,556,961	479,775

32. TRANSFERRED FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

On 11 April 2011, a subsidiary of the Group entered into a factoring agreement (the "Factoring Agreement") with a bank for factoring certain of its trade receivables due from two major customers to improve the Group's liquidity and working capital. Under the Factoring Agreement, the Group transferred credit default risk of 90% of its factored receivables and retained 10% credit default risk and 100% of late payment risk through interest charged by the bank on the outstanding balance of the factored receivables. These financial assets are classified as financial assets that are not derecognised in their entirety.

As at 31 December 2012, the Group factored trade receivables of HK$52,206,116 (2011: HK$147,080,489) to a bank for cash. As the financial asset derecognition conditions as stipulated in HKAS 39 *Financial Instruments: Recognition and Measurement* have not been fulfilled, the Group's factored receivables are not derecognised in their entirety. Subsequent to the transfer, the Group does not retain any rights on the use of the factored trade receivables, including sale, transfer or pledge of the factored trade receivables to any other third parties. The Group continued to recognise factored trade receivables of HK$8,470,984 (2011: HK$13,547,771) included in other receivables and recognised their associated liabilities of HK$8,500,184 (2011: HK$13,801,872) included in other payables and accruals in the consolidated statement of financial position as at 31 December 2012 to the extent of its continuing involvement in the transferred trade receivables under the factoring arrangements with the bank. Accordingly, a gain on transfer of HK$224,901 (2011: a loss of HK$254,101) was resulted for the year ended 31 December 2012 from the factoring of trade receivables.

The following table provides a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

	2012 **HK$**	2011 HK$
Carrying amount of the transferred financial assets (Factored trade receivables)	**8,470,984**	13,547,771
Carrying amount of associated liabilities	**(8,500,184)**	(13,801,872)

33. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from subsidiaries, trade payables, and other payables and accruals approximate to their carrying amounts largely due to the short term maturities or no fixed terms of repayment of these instruments.

The fair values of the non-current portion of financial assets included in long term deposits and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

At the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated to their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets and liabilities measured at fair value:

The Group and the Company did not have any financial assets and liabilities measured at fair value as at 31 December 2012 and 2011.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to finance/raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables and other payables and accruals, 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 summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's 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 closely monitoring the movements in interest rates and reviewing its available credit facilities and their utilisation 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 loss before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	Decrease/ (increase) in loss before tax HK$
2012		
Hong Kong dollar	**25**	**(63,271)**
Hong Kong dollar	**(25)**	**63,271**
United States dollar	**25**	**(170,212)**
United States dollar	**(25)**	**170,212**
2011		
Hong Kong dollar	25	(37,344)
Hong Kong dollar	(25)	37,344
United States dollar	25	(156,596)
United States dollar	(25)	156,596

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures primarily arise from revenue and other income generated, cost and expenses incurred, and certain bank borrowings denominated in currencies other than the Group's operating units' functional currencies. For the Group's operating units' that have the United States dollar as their functional currency, their foreign currency transactions during the years ended 31 December 2012 and 2011, and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange prevailing as at the end of the reporting period were mainly denominated in Hong Kong dollars. As the Hong Kong dollar ("HK$") is pegged to the United States dollar ("US$") within a narrow band, the Group does not expect any significant movements in the US$/HK$ exchange rate. Accordingly, management considers that the Group's foreign currency risk exposure is not significant.

Credit risk

The Group primarily trades with recognised and creditworthy third parties. It is the Group's policy that advanced payments are generally required for new customers. In addition, receivable balances of the Group are monitored on an ongoing basis. Since the Group primarily trades with recognised and creditworthy third parties, there is normally no requirement for collateral, except for certain arrangements, as further detailed in notes 17 and 18 to the financial statements, under which the collaterals held by the Group have significantly mitigated the credit risks of the corresponding receivables in the opinion of the directors.

The credit risk of the Group's financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 28 to the financial statements.

Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 16.9% (2011: 28.2%) and 74.8% (2011: 78.2%) of the Group's trade receivables and other receivables were due from the Group's largest customer and five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank and other loans, trade receivable factoring facilities and standby credit facilities. The Group aims to maintain sufficient cash and cash equivalents and credit lines to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2012		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Trade payables	**84,403,598**	**–**	**84,403,598**
Other payables and accruals	**20,520,734**	**–**	**20,520,734**
Interest-bearing bank and other borrowings (note)	**92,692,264**	**54,420,282**	**147,112,546**
	197,616,596	**54,420,282**	**252,036,878**

	2011		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Trade payables	167,896,256	–	167,896,256
Other payables and accruals	27,229,272	–	27,229,272
Interest-bearing bank borrowings (note)	70,838,641	7,886,556	78,725,197
	265,964,169	7,886,556	273,850,725

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2012		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Financial liabilities – other payables and accruals	**913,946**	**–**	**913,946**
Interest-bearing other borrowing (note)	**3,000,000**	**50,139,726**	**53,139,726**
Guarantees given to banks in connection with facilities granted to subsidiaries	**109,844,425**	**–**	**109,844,425**
	113,758,371	**50,139,726**	**163,898,097**

	2011		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Financial liabilities – other payables and accruals	479,775	–	479,775
Guarantees given to banks in connection with facilities granted to subsidiaries	144,831,338	–	144,831,338
	145,311,113	–	145,311,113

Note:

Included in the above interest-bearing bank and other borrowings of the Group and the Company are certain term loans with carrying amounts of HK$49,932,162 (2011: HK$1,210,189) and HK$43,643,015 (2011: Nil), respectively, the loan agreements of which contain a repayment on-demand clause giving the creditor banks of the bank loans the right to call in the bank loans at any time and the lender of the other loan the right to call in the other loan at any time on or after 18 January 2014. Accordingly, for the purpose of the above maturity profile, the contractual undiscounted payments of such bank loans of the Group totalling HK$6,289,147 (2011: HK$1,210,189) and of such other loan of the Group in the amount of HK$50,139,726 (2011: Nil) are classified as "on demand" and "1 to 5 years", respectively, and the contractual undiscounted payments of such other loan of the Company in the amount of HK$50,139,726 (2011: Nil) is classified as "1 to 5 years".

Notwithstanding the above clause, the directors do not believe that such loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

In accordance with the terms of the loans which contain a repayment on-demand clause, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

Group

	Less than 1 year HK$	1 to 5 years HK$	Total HK$
As at 31 December 2012	**9,436,288**	**62,000,000**	**71,436,288**
As at 31 December 2011	995,916	248,950	1,244,866

Company

	Less than 1 year HK$	1 to 5 years HK$	Total HK$
As at 31 December 2012	**3,000,000**	**62,000,000**	**65,000,000**
As at 31 December 2011	–	–	–

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 maintain healthy capital ratios in order to support its business and 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. The Group is subject to certain capital requirements, such as gearing ratio and net tangible assets, imposed by certain banks with which the Group maintains banking facilities. These capital requirements are monitored by management on an ongoing basis.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

35. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period on 27 February 2013, the Group issued a prospectus ("Prospectus") pursuant to which the Company proposed an open offer ("Open Offer") to issue not less than 311,250,000 ordinary shares of the Company (the "Offer Shares") to the existing shareholders on the basis of one Offer Share for every two shares at a subscription price of HK$0.1286 per Offer Share. Pursuant to an announcement of the Company dated 19 March 2013 (the "Announcement"), the Open Offer became unconditional and a total of 311,250,000 Offer Shares were issued on 20 March 2013. The dealing of the Offer Shares on The Stock Exchange of Hong Kong Limited was commenced on 21 March 2013. Further details of the Open Offer were also disclosed in the Prospectus and the Announcement. The Company received net proceeds of approximately HK$38.1 million from the Open Offer. Further details of the adjustments to the exercise/subscription price of the share options and warrants of the Company and the number of shares that can be subscribed for upon the exercise of the outstanding share options as a result of the Open Offer are also set out in the Announcement.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2013.

Financial Summary

A summary of the Group's results for the last five financial years and the assets and liabilities of the Group as at 31 December 2012, 2011, 2010, 2009 and 2008, as extracted from the published audited financial statements, and the prospectus of the Company dated 4 December 2009, is set out below. The amounts as set out in this financial summary are prepared as if the group structure immediately after a group reorganisation in 2009 had been in existence throughout the years presented.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$	HK$	HK$	HK$	HK$
RESULTS					
REVENUE	**340,869,541**	533,406,703	497,683,452	548,148,089	555,780,401
Cost of sales	**(315,323,262)**	(486,958,388)	(423,252,233)	(461,530,840)	(460,446,469)
Gross profit	**25,546,279**	46,448,315	74,431,219	86,617,249	95,333,932
Other income and gain	**1,358,878**	8,748,028	673,347	899,908	582,718
Research and development costs	**(23,678,720)**	(8,321,705)	(7,357,953)	(15,629,989)	(26,273,609)
Selling and distribution costs	**(16,188,543)**	(13,923,258)	(10,338,614)	(13,946,828)	(15,556,055)
General and administrative expenses	**(39,304,434)**	(45,467,014)	(27,776,524)	(26,146,395)	(31,978,348)
Other expenses, net	**(37,187,744)**	(7,435,420)	(144,036)	(518,912)	(4,603,711)
Finance costs	**(8,556,469)**	(5,434,911)	(2,591,923)	(3,882,964)	(4,821,828)
PROFIT/(LOSS) BEFORE TAX	**(98,010,753)**	(25,385,965)	26,895,516	27,392,069	12,683,099
Income tax credit/(expense)	**1,364,311**	3,397,094	(3,871,559)	234,335	(4,520,419)
PROFIT/(LOSS) FOR THE YEAR	**(96,646,442)**	(21,988,871)	23,023,957	27,626,404	8,162,680
Attributable to:					
Owners of the parent	**(96,646,442)**	(21,988,871)	23,023,957	27,626,404	8,162,680

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$	HK$	HK$	HK$	HK$
ASSETS AND LIABILITIES					
TOTAL ASSETS	**252,744,106**	375,347,282	315,623,114	430,701,326	241,872,339
TOTAL LIABILITIES	**(243,950,572)**	(276,729,895)	(196,026,695)	(348,448,425)	(277,806,043)
	8,793,534	98,617,387	119,596,419	82,252,901	(35,933,704)