

# Perception Digital Holdings Limited

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

Stock Code: 1822



Interim Report .....

2013

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The board of Directors (the “Board”) hereby presents the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2013 together with the comparative unaudited figures for the corresponding period in 2012, as follows:

## Condensed Consolidated Income Statement

For the six months ended 30 June 2013

|  | Notes | Six months ended 30 June    |                             |
|--|-------|-----------------------------|-----------------------------|
|  |       | 2013<br>HK\$<br>(Unaudited) | 2012<br>HK\$<br>(Unaudited) |
| REVENUE  | 3     | <b>94,399,125</b>           | 169,043,165                 |
| Cost of sales  |       | <b>(80,839,055)</b>         | (156,845,891)               |
| Gross profit   |       | <b>13,560,070</b>           | 12,197,274                  |
| Other income and gain  |       | <b>444,373</b>              | 5,375,510                   |
| Research and development costs   |       | <b>(1,744,932)</b>          | (3,944,732)                 |
| Selling and distribution costs   |       | <b>(8,111,322)</b>          | (6,012,887)                 |
| General and administrative expenses  |       | <b>(10,992,314)</b>         | (24,702,659)                |
| Other expenses, net  |       | <b>(6,776,600)</b>          | –                           |
| Finance costs  | 5     | <b>(3,690,951)</b>          | (3,937,727)                 |
| LOSS BEFORE TAX  | 6     | <b>(17,311,676)</b>         | (21,025,221)                |
| Income tax credit  | 7     | –                           | 2,705,243                   |
| LOSS FOR THE PERIOD  |       | <b>(17,311,676)</b>         | (18,319,978)                |
| Attributable to owners of the parent                                       |       | <b>(17,311,676)</b>         | (18,319,978)                |
| LOSS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF<br>THE PARENT |       |                             |                             |
| – Basic and diluted  | 8     | <b>(1.90) cents</b>         | (2.94) cents                |

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

|   | Six months ended 30 June |              |
|---|--------------------------|--------------|
|   | 2013                     | 2012         |
|   | HK\$                     | HK\$         |
|   | (Unaudited)              | (Unaudited)  |
| LOSS FOR THE PERIOD   | <b>(17,311,676)</b>      | (18,319,978) |
| OTHER COMPREHENSIVE INCOME/(EXPENSES):                            |                          |              |
| Items that may be subsequently reclassified to profit and loss:   |                          |              |
| Exchange differences arising on translation of foreign operations | <b>153,294</b>           | (150,714)    |
| TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD                       | <b>(17,158,382)</b>      | (18,470,692) |
| Attributable to:  |                          |              |
| Owners of the parent  | <b>(17,158,382)</b>      | (18,470,692) |

## Condensed Consolidated Statement of Financial Position

As at 30 June 2013

|  | Notes | 30 June<br>2013<br>HK\$<br>(Unaudited) | 31 December<br>2012<br>HK\$<br>(Audited) |
|--|-------|--|--|
| <b>NON-CURRENT ASSETS</b>  |       |  |  |
| Property, plant and equipment                                      |       | 5,714,154                              | 7,507,826                                |
| Deferred development costs   |       | 32,509,384                             | 34,140,404                               |
| Deposits for purchase of items of property,<br>plant and equipment |       | 303,304                                | 446,806                                  |
| Deferred tax assets  |       | 2,406,665                              | 2,406,665                                |
| Total non-current assets   |       | 40,933,507                             | 44,501,701                               |
| <b>CURRENT ASSETS</b>  |       |  |  |
| Inventories  |       | 20,828,112                             | 26,615,330                               |
| Trade receivables  | 10    | 60,462,207                             | 78,928,766                               |
| Prepayments, deposits and other receivables                        | 11    | 38,351,341                             | 41,957,100                               |
| Tax recoverable  |       | –                                      | 1,390,035                                |
| Pledged deposit  |       | 14,757,837                             | 16,195,487                               |
| Cash and bank balances   |       | 17,840,839                             | 43,155,687                               |
| Total current assets   |       | 152,240,336                            | 208,242,405                              |
| <b>CURRENT LIABILITIES</b>   |       |  |  |
| Trade payables   | 12    | 61,077,885                             | 84,403,598                               |
| Other payables and accruals  |       | 18,217,773                             | 20,617,930                               |
| Interest-bearing bank and other borrowings                         |       | 55,225,462                             | 92,056,996                               |
| Tax payable  |       | 864,446                                | 852,174                                  |
| Provision  |       | 904,626                                | 977,031                                  |
| Total current liabilities  |       | 136,290,192                            | 198,907,729                              |
| <b>NET CURRENT ASSETS</b>  |       | <b>15,950,144</b>                      | 9,334,676                                |
| <b>TOTAL ASSETS LESS CURRENT<br/>LIABILITIES</b>                   |       | <b>56,883,651</b>                      | 53,836,377                               |

## Condensed Consolidated Statement of Financial Position

(continued)

As at 30 June 2013

|  | Notes | 30 June<br>2013<br>HK\$<br>(Unaudited) | 31 December<br>2012<br>HK\$<br>(Audited) |
|--|-------|--|--|
| <b>NON-CURRENT LIABILITIES</b>                     |       |  |  |
| Interest-bearing bank and other borrowings         |       | 27,273,215                             | 44,979,236                               |
| Deferred tax liabilities                           |       | 64,522                                 | 63,607                                   |
| Total non-current liabilities                      |       | 27,337,737                             | 45,042,843                               |
| Net assets   |       | 29,545,914                             | 8,793,534                                |
| <b>EQUITY</b>                                      |       |  |  |
| <b>Equity attributable to owners of the parent</b> |       |  |  |
| Issued capital                                     | 13    | 93,375,000                             | 62,250,000                               |
| Reserves   |       | (63,829,086)                           | (53,456,466)                             |
|  |       | 29,545,914                             | 8,793,534                                |

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

|  | Issued<br>capital<br>HK\$ | Share<br>premium<br>account<br>HK\$ | Capital<br>reserve<br>HK\$ | Warrant<br>reserve<br>HK\$ | Share<br>option<br>reserve<br>HK\$ | Exchange<br>fluctuation<br>reserve<br>HK\$ | Accumulated<br>losses<br>HK\$ | Total<br>Equity<br>HK\$ |
|--|---------------------------|-------------------------------------|----------------------------|----------------------------|------------------------------------|--|-------------------------------|-------------------------|
| At 1 January 2012 (unaudited)  | 62,250,000                | 43,490,307                          | 43,823,276                 | -                          | 4,831,153                          | 2,228,024                                  | (58,005,373)                  | 98,617,387              |
| Total comprehensive expenses for<br>the period                                     | -                         | -                                   | -                          | -                          | -                                  | (150,714)                                  | (18,319,978)                  | (18,470,692)            |
| Equity-based share option arrangements   | -                         | -                                   | -                          | -                          | 483,554                            | -  | -                             | 483,554                 |
| At 30 June 2012 (unaudited)  | 62,250,000                | 43,490,307                          | 43,823,276                 | -                          | 5,314,707                          | 2,077,310                                  | (76,325,351)                  | 80,630,249              |
| At 1 January 2013 (unaudited)  | 62,250,000                | 43,490,307                          | 43,823,276                 | 7,048,243                  | 3,093,539                          | 2,549,544                                  | (153,461,375)                 | 8,793,534               |
| Issue of shares  | 31,125,000                | 8,901,750                           | -                          | -                          | -                                  | -  | -                             | 40,026,750              |
| Share issue cost   | -                         | (1,770,417)                         | -                          | -                          | -                                  | -  | -                             | (1,770,417)             |
| Total comprehensive expenses for<br>the period                                     | -                         | -                                   | -                          | -                          | -                                  | 153,294                                    | (17,311,676)                  | (17,158,382)            |
| Equity-based share option arrangements   | -                         | -                                   | -                          | -                          | (345,571)                          | -  | -                             | (345,571)               |
| Transfer of share option reserve upon<br>the forfeiture or expiry of share options | -                         | -                                   | -                          | -                          | (430,850)                          | -  | 430,850                       | -                       |
| At 30 June 2013 (unaudited)  | 93,375,000                | 50,621,640                          | 43,823,276                 | 7,048,243                  | 2,317,118                          | 2,702,838                                  | (170,342,201)                 | 29,545,914              |

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013

|  | <b>Six months ended 30 June</b> |              |
|--|---------------------------------|--------------|
|  | <b>2013</b>                     | 2012         |
|  | <b>HK\$</b>                     | HK\$         |
|  | <b>(Unaudited)</b>              | (Unaudited)  |
| <b>Net cash outflow from operating activities</b>          | <b>(307,902)</b>                | (18,801,041) |
| <b>Net cash outflow from investing activities</b>          | <b>(5,068,858)</b>              | (16,471,178) |
| <b>Net cash inflow/(outflow) from financing activities</b> | <b>(15,236,577)</b>             | 2,680,283    |
| <b>Net decrease in cash and cash equivalents</b>           | <b>(20,613,337)</b>             | (32,591,936) |
| Cash and cash equivalents at 1 January                     | <b>31,592,765</b>               | 40,365,986   |
| Effect of foreign exchange rate changes, net               | <b>34,085</b>                   | (159,836)    |
| <b>Cash and cash equivalents at end of period</b>          | <b>11,013,513</b>               | 7,614,214    |
| <b>Analysis of balances of cash and cash equivalents</b>   |                                 |              |
| Cash and bank balances                                     | <b>17,840,839</b>               | 14,704,987   |
| Bank overdrafts  | <b>(6,827,326)</b>              | (7,090,773)  |
|  | <b>11,013,513</b>               | 7,614,214    |

# Notes to the Condensed Consolidated Financial Statement

For the six months ended 30 June 2013

## 1. Corporate Information

The Company is a limited liability company incorporated in the Cayman Islands on 11 September 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the six months ended 30 June 2013, the Group was primarily involved in the research, design and development of digital signal processing (“DSP”) platform and the provision of embedded firmware and “end-to-end” turnkey solutions to customers for their DSP-based consumer electronic devices.

## 2. Basis of Preparation and Accounting Policies

The Group’s unaudited condensed consolidated interim 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 (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars. The accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2012.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.



**Issue of new and revised Hong Kong Financial Reporting Standards**

|  |  |
|--|--|
| HKFRS 1 Amendments                         | Amendments to HKFRS 1 <i>First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>                 |
| HKFRS 7 Amendments                         | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>        |
| HKFRS 10                                   | <i>Consolidated Financial Statements</i>   |
| HKFRS 11                                   | <i>Joint Arrangements</i>  |
| HKFRS 12                                   | <i>Disclosure of Interests in Other Entities</i>   |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | <i>Consolidated financial statements, joint arrangements and disclosure of interest in other entities: Transition guidance</i> |
| HKFRS 13                                   | <i>Fair Value Measurement</i>  |
| HKAS 1 Amendments                          | Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of items of other comprehensive income</i>         |
| HKAS 19 (2011)                             | <i>Employee Benefits</i>   |
| HKAS 27 (2011)                             | <i>Separate Financial Statements</i>   |
| HKAS 28 (2011)                             | <i>Investments in Associates and Joint Ventures</i>  |
| HK(IFRIC)-Int 20                           | <i>Stripping Costs in the Production Phase of a Surface Mine</i>   |
| <i>Annual Improvements 2009-2011 cycle</i> | Amendments to a number of HKFRSs issued in June 2012   |

The adoption of these new and revised HKFRS has had no significant financial effects on these condensed consolidated financial statements of the Group.

**3. Revenue**

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalty income received and receivable during the period.

The following table sets out a breakdown of our revenue:

|                       | <b>Six months ended 30 June</b> |                    |
|-----------------------|---------------------------------|--------------------|
|                       | <b>2013</b>                     | <b>2012</b>        |
|                       | <b>HK\$</b>                     | <b>HK\$</b>        |
|                       | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Sales of products     | <b>91,892,776</b>               | 166,379,736        |
| Royalty income        | <b>342,480</b>                  | 74,936             |
| Rendering of services | <b>2,163,869</b>                | 2,588,493          |
|                       | <b>94,399,125</b>               | 169,043,165        |

#### 4. Operating Segment Information

The Group focuses on the research, design and development of DSP platform and the provision of embedded firmware and “end-to-end” turnkey solutions to customers for their DSP-based consumer electronic devices. Information reported to the Group’s chief operating decision maker, for the purpose of 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 table presents revenue from external customers for the periods ended 30 June 2013 and 2012 by geographical areas.

|  | Europe<br>HK\$ | United<br>States of<br>America<br>HK\$ | Mainland<br>China<br>HK\$ | Hong Kong<br>HK\$ | Others<br>HK\$ | Total<br>HK\$ |
|--|----------------|--|---------------------------|-------------------|----------------|---------------|
| <b>Six months ended</b>                        |                |  |                           |                   |                |               |
| <b>30 June 2013</b>                            |                |  |                           |                   |                |               |
| Revenue from external<br>customers (Unaudited) | 34,401,261     | 27,087,738                             | 5,248,855                 | 8,830,184         | 18,831,087     | 94,399,125    |
| <b>Six months ended</b>                        |                |  |                           |                   |                |               |
| <b>30 June 2012</b>                            |                |  |                           |                   |                |               |
| Revenue from external<br>customers (Unaudited) | 46,562,976     | 28,808,899                             | 8,741,104                 | 35,561,653        | 49,368,533     | 169,043,165   |

The Group’s revenue information by geographical areas is based on the destination where the goods are delivered, except for revenue from the rendering of services and royalty income, which is based on the locations where the customers are domiciled/located.

5. Finance Costs

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2013                     | 2012        |
|  | HK\$                     | HK\$        |
|  | (Unaudited)              | (Unaudited) |
| Interest on bank loans, overdrafts and other loan wholly repayable within five years | 3,042,330                | 2,861,545   |
| Bank charges   | 648,621                  | 1,076,182   |
|  | <b>3,690,951</b>         | 3,937,727   |

6. Loss Before Tax

The Group's loss before tax is after charging:

|                                  | Six months ended 30 June |             |
|----------------------------------|--------------------------|-------------|
|                                  | 2013                     | 2012        |
|                                  | HK\$                     | HK\$        |
|                                  | (Unaudited)              | (Unaudited) |
| Depreciation                     | 1,653,394                | 1,899,869   |
| Research and development costs:  |                          |             |
| – Deferred expenditure amortised | 8,615,426                | 5,998,331   |

## 7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2013 as the Group did not generate any assessable profits arising in Hong Kong during that period. Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2012. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

|                                 | <b>Six months ended 30 June</b> |                    |
|---------------------------------|---------------------------------|--------------------|
|                                 | <b>2013</b>                     | <b>2012</b>        |
|                                 | <b>HK\$</b>                     | <b>HK\$</b>        |
|                                 | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Current – Hong Kong:            |                                 |                    |
| – Charge for the period         | –                               | –                  |
| Deferred                        | –                               | (2,705,243)        |
| Total tax credit for the period | –                               | (2,705,243)        |

The Group's subsidiary established and operating in the Shenzhen Special Economic Zone of the People's Republic of China (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 concession policies of tax rate reductions shall have a grace period of five years to comply with the requirements of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate on or before 31 December 2007 will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively. In addition, the Group's subsidiary established in the PRC had obtained the status of National High-Tech Enterprise and, accordingly, is entitled to a lower PRC corporate income tax rate of 15%.

## 8. Loss Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$17.3 million (2012: HK\$18.3 million), and the weighted average number of 933,750,000 ordinary shares in issue (2012: 622,500,000 ordinary shares).

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2013 and 2012 in respect of a dilution, as the impact of the potential dilutive ordinary shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented for the six months ended 30 June 2013 and 2012.

**9. Dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

**10. Trade and Bills Receivables**

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

|                | <b>30 June<br/>2013<br/>HK\$<br/>(Unaudited)</b> | 31 December<br>2012<br>HK\$<br>(Audited) |
|----------------|--|--|
| Within 30 days | <b>18,931,106</b>                                | 16,656,806                               |
| 31 to 60 days  | <b>14,835,619</b>                                | 11,704,386                               |
| 61 to 90 days  | <b>11,694,079</b>                                | 3,762,419                                |
| Over 90 days   | <b>15,001,403</b>                                | 46,805,155                               |
|                | <b>60,462,207</b>                                | 78,928,766                               |

The credit period is generally 30 to 120 days.

**11. Deposits, Prepayments and Other Receivables**

As at 31 December 2012, an other receivable of HK\$20,058,594 and a trade receivable of HK\$7,616,643 were secured by an intellectual property of a customer of the Group and bore a monthly interest rate of 1.6%.

**12. Trade Payables**

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

|                | <b>30 June<br/>2013<br/>HK\$<br/>(Unaudited)</b> | 31 December<br>2012<br>HK\$<br>(Audited) |
|----------------|--|--|
| Within 30 days | <b>12,133,302</b>                                | 60,086,449                               |
| 31 to 60 days  | <b>23,680,513</b>                                | 4,455,626                                |
| Over 60 days   | <b>25,264,070</b>                                | 19,861,523                               |
|                | <b>61,077,885</b>                                | 84,403,598                               |

The credit period is generally 30 to 120 days.

**13. Share Capital****Shares:**

|  | <b>Number of<br/>ordinary<br/>shares</b> | <b>Issued<br/>capital<br/>HK\$</b> | <b>Share<br/>premium<br/>account<br/>HK\$</b> | <b>Total<br/>HK\$</b> |
|--|--|------------------------------------|---|-----------------------|
| At 1 January 2013 (unaudited)                                      | 622,500,000                              | 62,250,000                         | 43,490,307                                    | 105,740,307           |
| Issue of new shares in<br>connection with<br>the Open Offer (Note) | 311,250,000                              | 31,125,000                         | 8,901,750                                     | 40,026,750            |
| Share issue costs  | -  | -                                  | (1,770,417)                                   | (1,770,417)           |
|  | 933,750,000                              | 93,375,000                         | 50,621,640                                    | 143,996,640           |

*Note:* On 27 February 2013, the Group issued a prospectus (the “Prospectus”) pursuant to which the Company proposed an open offer (the “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\$38.2 million from the Open Offer.

***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. Further details of the warrants are set out in an announcement of the Company dated 18 October 2012.

As a result of the completion of the Open Offer in March 2013, the subscription price of the outstanding warrants was adjusted to HK\$0.24. The exercise in full of the warrants would, under the capital structure of the Company as at 30 June 2013, result in the issue of 70,031,250 additional ordinary shares of the Company.



## Management Discussion and Analysis

The Company hereby presents the interim results for the six months ended 30 June 2013.

### Business Review

During the six months ended 30 June 2013, revenue of the Group decreased by approximately 44.2% to HK\$94.4 million from HK\$169.0 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly attributable to the decrease in sales of products by HK\$74.5 million, or approximately 44.8%, from HK\$166.4 million in the six months ended 30 June 2012 to HK\$91.9 million in the current period under review. This was mainly caused by the shift of our product mix from products with relatively higher selling price but lower profit margin to our new golf swing analyser ("3BaysGSA"), which was launched in second half of 2012, with relatively lower selling price but higher profit margin. With the launch of our new 3BaysGSA, the overall gross profit for the six month ended 30 June 2013 increased by 11.2%, or HK\$1.4 million, as compared to the corresponding period in the last fiscal year.

In view of the above, the net loss of the Group for the six months ended 30 June 2013 decreased to HK\$17.3 million, as compared to the net loss of HK\$18.3 million recorded in the corresponding period of the last fiscal year.

In terms of revenue breakdown, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 97.3% (2012: 98.4%), 0.4% (2012: 0.1%) and 2.3% (2012: 1.5%), respectively. During the six months ended 30 June 2013, upon the requests of customers for coping with their marketing strategies, products delivered to Hong Kong decreased by approximately HK\$26.7 million to HK\$8.8 million.



## Financial Review

### Results of the Group

#### *Turnover*

During the six months ended 30 June 2013, the Group recorded a revenue of HK\$94.4 million, which represented a decrease of 44.2% as compared to the revenue amounted to HK\$169.0 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly resulted from the decrease in sales in products and service income from rendering of project development and management services from HK\$166.4 million and HK\$2.6 million in the six months ended 30 June 2012 to HK\$91.9 million and HK\$2.2 million in the current period, respectively.

#### *Other income and gain*

Other income and gain of the Group decreased by 91.7%, from approximately HK\$5.4 million for the corresponding period in the last fiscal year to approximately HK\$0.4 million for the six months ended 30 June 2013. The significant balance for the prior period was mainly because of the interest income recognised on certain account receivable as a compensation for the extension of repayment period. There was no such income recognised during the current period.

#### *Research and development costs*

The research and development costs of the Group decreased by 55.8% from HK\$4.0 million for the corresponding period in the last fiscal year to HK\$1.7 million for the six months ended 30 June 2013, primarily as a result of the cost saving measures which were implemented in several stages.

#### *Selling and distribution costs*

Selling and distribution costs of the Group increased by approximately 34.9% from HK\$6.0 million during the six months ended 30 June 2012 to HK\$8.1 million in the current period under review, primarily resulting from the increase in sales commission and agency fees for promoting new products in the current period.

#### *General and administrative expenses*

During the six months ended 30 June 2013, the general and administrative expenses of the Group decreased by approximately 55.5% to HK\$11.0 million from HK\$24.7 million as recorded in the six months ended 30 June 2012. The decrease was mainly due to the cost saving measures which were implemented in several stages.

***Other expenses, net***

The balance for the six month ended 30 June 2013 represented the impairment of trade receivable amounting to HK\$6.8 million, where the Group is of the opinion that the probability to recover those receivable is remote.

***Finance costs***

The finance costs during the six months ended 30 June 2013 amounted to HK\$3.7 million, which represented an decrease of approximately 6.3% as compared to the finance costs during the corresponding period in the last year amounted of HK\$3.9 million. The decrease was primarily due to the decrease in the utilisation of bank borrowings during the six months ended 30 June 2013 for material sourcing and the daily operations.

***Income tax***

No provision for taxation was provided during the current period. The net tax credit incurred during the six months ended 30 June 2012 was resulted from the loss incurred by one of the subsidiaries of the Company.

**Liquidity and financial resources**

As at 30 June 2013, cash and cash equivalents of the Group amounted to approximately HK\$17.8 million (31 December 2012: HK\$43.2 million), and within which, approximately HK\$3.3 million (31 December 2012: HK\$473,000) is denominated in Renminbi.

As at 30 June 2013, the Group had bank and other borrowings amounting to HK\$82.5 million (31 December 2012: HK\$137.0 million) and among which, HK\$27.3 million (31 December 2012: HK\$45.0 million) is not repayable within one year. The bank and other borrowings carry interest rates ranging from 2.68% to 6.75%. Except for bank borrowings amounting to HK\$18.1 million as at 30 June 2013 (31 December 2012: HK\$68.1 million), which are denominated in the United States dollars, all the bank borrowings are denominated in Hong Kong dollars.

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

## Gearing ratio

|  | <b>As at<br/>30 June<br/>2013<br/>HK\$<br/>(Unaudited)</b> | As at<br>31 December<br>2012<br>HK\$<br>(Audited) |
|--|--|---|
| Total bank and other borrowings  | <b>82,498,677</b>  | 137,036,232                                       |
| Equity   | <b>29,545,914</b>  | 8,793,534   |
|  | <b>112,044,591</b>   | 145,829,766                                       |
| Gearing ratio (Total bank and other borrowings<br>divided by the summation of total bank and<br>other borrowings and equity) | <b>73.6%</b>   | 94.0%   |

As at 30 June 2013, the maturity profile of the bank borrowings of the Group falling due within one year, in the second year and the third to fifth years, inclusive, amounted to HK\$55.2 million (31 December 2012: HK\$92.0 million), HK\$27.2 million (31 December 2012: HK\$44.2 million) and HK\$0.1 million (31 December 2012: HK\$0.8 million).

## Capital structure

The capital of the Group comprises only ordinary shares. As at 31 December 2012 and 30 June 2013, the total number of the issued ordinary shares of the Group was 622,500,000 shares and 933,750,000 shares respectively.

## Significant investments

As at the end of the reporting period, the Group did not have any significant investment plans.

## Material acquisitions and disposals

During the six months ended 30 June 2013, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Group.

## Charges on the Group's assets

As at 30 June 2013, certain of the Group's bank deposits of HK\$14.8 million (31 December 2012: HK\$16.2 million) were pledged to secure certain banking facilities granted to the Group.

## Foreign currency exposure

The foreign currency exposure of the Group primarily arise from revenue or income generated, cost or expenses incurred, and certain bank and other borrowings denominated in currencies other than the Group's operating units' functional currency. For the Group's operating units that have the United States dollar as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 30 June 2013 were mainly denominated in Hong Kong dollars. As the United States dollar ("US\$") is pegged to the Hong Kong dollar ("HK\$") within a narrow band, the Group does not expect any significant movements in the US\$/HK\$ exchange rate. Accordingly, we consider the Group's foreign currency risk exposure to be low.

## Contingent liabilities

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

## Commitments

### (i) Operating lease arrangements

The Group leases its office premises and certain of its office equipment under operating lease arrangements with leases negotiated for terms ranging from one to five years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | <b>As at<br/>30 June<br/>2013<br/>HK\$<br/>(Unaudited)</b> | <b>As at<br/>31 December<br/>2012<br/>HK\$<br/>(Audited)</b> |
|---|--|--|
| Within one year                         | <b>947,792</b>   | 1,415,573  |
| In the second to fifth years, inclusive | <b>462,474</b>   | 414,227  |
|   | <b>1,410,266</b>   | 1,829,800  |

**(ii) Capital commitments**

As at the end of the reporting period, the Group did not have any significant capital commitment (31 December 2012: Nil).

## Outlook

The results the Group have been affected by the global economic downturn caused by the European sovereign debt crisis since 2012. In order to cope with the adverse environment, the Group had already implemented several cost-saving measures since the second half of 2012, including but not limited to (i) streamline the operation flows and focus on core product development; (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. During the first half of 2013, these cost-saving measures enabled the operating expenses (excluding other expenses) to decrease by approximately 36.4% to HK\$24.5 million as compared to the same period of last fiscal year. The Group will continue to closely monitor and review the cost control policies on a regular basis.

In addition to the saving of operating costs, the Group also actively deploys new markets and customers to enhance its profitability. With the success of marketing and promoting the Group's 3BaysGSA, which was launched in the second half of 2012 and had higher profit margin than other products of the Group, the gross profit of the Group for the six months ended 30 June 2013 increased by approximately 11.2% to HK\$13.6 million as compared to the same period of the last fiscal year. The 3BaysGSA was found to be well accepted by many golfers and received positive reviews in many professional golf magazines and forums. During the first half of 2013, the Group has been focusing to develop sales channels, including golf shops, sports outlets and online websites, in the United States and Asian countries. Starting from the June 2013, the 3BaysGSA is also available on the Apple Stores in the United States and Canada. We will continue to explore potential new customers and enhance the functionality in new version of the 3BaysGSA.

## Dividends

The Board does not recommend the payment of any dividend for the six months ended 30 June 2013 (2012: Nil).

## Employees and Remuneration Policy

As at 30 June 2013, the Group employed a total of 56 employees. Total staff costs, including directors emoluments, amounted to approximately HK\$13.8 million for the six months ended 30 June 2013. 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 bonuses, share options, medical insurance, provident fund contribution, education subsidy and training to its employees.

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

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (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 position in the ordinary shares of the Company (the "Shares"):

| Name of Director                               | Notes | Capacity/<br>Nature of interest       | Number of<br>Shares<br>interested | Percentage of<br>the Company's<br>issued share<br>capital |
|--|-------|---------------------------------------|-----------------------------------|---|
| Prof. Cheng, Shu Kwan Roger<br>("Prof. Cheng") | (a)   | Interest of controlled<br>corporation | 2,976,655                         | 0.32%   |
| Prof. Tsui, Chi Ying ("Prof. Tsui")            | (b)   | Interest of controlled<br>corporation | 11,903,210                        | 1.27%   |
| Mr. Mung Wai Ming ("Mr. Mung")                 | (c)   | Interest of controlled<br>corporation | 65,441,500                        | 7.01%   |
|  |       |                                       | 80,321,365                        | 8.60%   |

*Notes:*

- (a) 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.
- (b) 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.
- (c) The 65,441,500 Shares are held by Keen Platinum Limited ("Keen Platinum"), which is wholly-owned by Mr. Mung.

Save as disclosed above, as at 30 June 2013, 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 30 June 2013, 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            | Notes | Capacity/<br>Nature of interest       | Number of<br>Shares interested | Percentage of<br>the Company's<br>issued share<br>capital |
|---|-------|---------------------------------------|--------------------------------|---|
| Swanland Management Limited<br>("Swanland") |       | Beneficial owner                      | 188,388,510                    | 20.17%  |
| Masteray Limited ("Masteray")               | (a)   | Beneficial owner                      | 80,743,045                     | 8.65%   |
|   |       | Interest of controlled<br>corporation | 188,388,510                    | 20.17%  |
|   |       |                                       | 269,131,555                    | 28.82%  |
| Sea Progress Limited ("Sea Progress")       | (b)   | Beneficial owner                      | 269,131,555                    | 28.82%  |
| Ms. Loh, Jiah Yee Katherine<br>("Ms. Loh")  | (c)   | Interest of controlled<br>corporation | 269,131,555                    | 28.82%  |
|   |       | Beneficial owner                      | 4,717,500                      | 0.51%   |
|   |       |                                       | 273,849,055                    | 29.33%  |
| Manyi Holdings Limited ("Manyi")            |       | Beneficial owner                      | 140,482,433                    | 15.04%  |
| Dr. Wu Po Him, Philip ("Dr. Wu")            | (d)   | Interest of controlled<br>corporation | 140,482,433                    | 15.05%  |
|   |       | Beneficial owner                      | 1,599,142                      | 0.17%   |
|   |       |                                       | 142,081,575                    | 15.22%  |



| Name of Substantial Shareholders                           | Notes | Capacity/<br>Nature of interest    | Number of<br>Shares interested | Percentage of<br>the Company's<br>issued share<br>capital |
|--|-------|------------------------------------|--------------------------------|---|
| Capital Fame Technology Limited<br>("Capital Fame")        |       | Beneficial owner                   | 120,000,000                    | 12.85%  |
| Mr. Chan Yuen Ming ("Mr. Chan")                            | (e)   | Interest of controlled corporation | 120,000,000                    | 12.85%  |
| Keen Platinum  |       | Beneficial owner                   | 65,441,500                     | 7.01%   |
| Mr. Mung   | (f)   | Interest of controlled corporation | 65,441,500                     | 7.01%   |
| Notable Success Investments Limited<br>("Notable Success") | (g)   | Beneficial owner                   | 54,196,943                     | 5.80%   |
| Successful Link Limited<br>("Successful Link")             | (g)   | Interest of controlled corporation | 54,196,943                     | 5.80%   |
| Paulo Lam ("Mr. Lam")                                      |       | Interest of controlled corporation | 54,196,943                     | 5.80%   |

*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 Trust Limited ("Credit Suisse").
- (c) Ms. Loh is the founder of a discretionary trust holding 269,131,555 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) Mr. Chan is the sole beneficial owner of Capital Fame and hence is deemed to be interested in all the Shares held by Capital Fame.

- (f) Mr. Mung is the sole beneficial owner of Keen Platinum and hence is deemed to be interested in all the Shares held by Keen Plantinum.
- (g) 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 30 June 2013, 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.

## Directors' Right to Acquire Securities

Save as disclosed in the heading "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY" above, at no time during the period was the Company, or any of its subsidiaries a party to any arrangements with enable a director or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or their children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

## Share Option Scheme

As at 30 June 2013, share options to subscribe for an aggregate of 2,211,156 ordinary shares of the Company were granted to certain employees and consultants of the Group pursuant to the share option scheme of the Company adopted on 27 November 2009 (the "Scheme"). Details of the Scheme were disclosed in the 2012 annual report of the Company.

Details of the share options outstanding as at 30 June 2013 under the Scheme are as follows:

| Name or category of participant              | Number of share options |                                |                                     |           | At 30 Jun 2013 | Before completion of the Open Offer Exercise price | After completion of the Open Offer Exercise price | Date of grant | Exercise Period |
|--|-------------------------|--------------------------------|-------------------------------------|-----------|----------------|--|---|---------------|-----------------|
|  | At 1 Jan 2012           | Adjustment from the Open Offer | Cancelled/ lapsed during the period |           |                |  |   |               |                 |
| <b>Director</b><br><b>Mr. Tao Hong Ming*</b> | 750,000                 | -                              | (750,000)                           | -         | HK\$0.7        | HK\$0.646  | 26-3-2010   | (Note)        |                 |
| <b>Continuous contract employees</b>         | 3,300,000               | 276,870                        | (2,232,834)                         | 1,344,036 | HK\$0.7        | HK\$0.646  | 26-3-2010   | (Note)        |                 |
| <b>Other participate</b><br>Consultants      | 1,200,000               | 100,680                        | (433,560)                           | 867,120   | HK\$0.7        | HK\$0.646  | 26-3-2010   | (Note)        |                 |
|  | 5,250,000               | 377,550                        | (3,416,394)                         | 2,211,156 |                |  |   |               |                 |

*Note:*

All of the 2,211,156 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 the share options were granted was HK\$0.67 per share.

\* Mr. Tao Hong Ming resigned as a director of the Company on 1 February 2013 and his share options were lapsed accordingly.

## Share Options Under a Supply Chain Management Agreement

On 11 August 2011, pursuant to a supply chain management agreement (the "Agreement") with a term of three years, the Company granted two options to Teleepoch Limited ("Teleepoch"), where Teleepoch was entitled to (i) subscribe a maximum of 15,500,000 ordinary shares of the Company at an exercise of HK\$0.38 per share; and (ii) subscribe for 0.285 shares of the Company at the exercise price of HK\$0.38 per share for every HK\$1.0 of net profit of the Company generated from sales orders placed by the clients of Teleepoch ("Performance Benchmark"), subject to a maximum of 46,750,000 ordinary shares of the Company. On each anniversary date during the term of the Agreement, a portion of the Performance Option shall be vested and become exercisable, which shall be determined by reference to the Performance Benchmark for the previous year. Further details of the options under the Agreement were disclosed in the 2012 annual report of the Company.

Details of the share options outstanding as at 30 June 2013 under the Agreement are as follows:

| Number of share options |                                |                |  |   |               |                                    |
|-------------------------|--------------------------------|----------------|--|---|---------------|------------------------------------|
| At 1 Jan 2013           | Adjustment from the Open Offer | At 30 Jun 2013 | Before completion of the Open Offer Exercise price | After completion of the Open Offer Exercise price | Date of grant | Exercise Period                    |
| 15,500,000              | 1,300,450                      | 16,800,450     | HK\$0.38   | HK\$0.351   | 11-8-2011     | 11 November 2011 to 10 August 2016 |
| 46,750,000 <sup>^</sup> | 3,922,325                      | 50,672,325     | HK\$0.38   | HK\$0.351   | 11-8-2011     | 11 August 2012 to 10 August 2016   |
| 62,250,000              | 5,222,775                      | 67,472,775     |  |   |               |                                    |

Notes:

- \* The exercise price is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.
- <sup>^</sup> The number of Performance Option and the period that the Performance Option become vested and exercisable are subject to the achievement of the Performance Benchmark.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code for dealing in securities of the Company by Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2013.

## Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2013.

## Corporate Governance

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

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

During the period from 1 January 2013 to 28 June 2013, Dr. Jack Lau was the Chairman and the CEO, who was responsible for the management of the Board and the operations of the Group. The Board considered that Dr. Jack Lau has thorough understanding and expertise regarding the business operations of the Group and thus enabling him to make appropriate decisions on a timely manner which are in the interests of the shareholders of the Company as a whole. Considering the size of the Company and the scope of business of the Group, there was no imminent need to separate the roles of the Chairman and the CEO. Dr. Jack Lau resigned as the executive Director of the Company and the CEO on 29 June 2013.

## Audit Committee

The Company established an audit committee in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Ms. Zhou Jing, Mr. Ng Wai Hung and Mr. William Keith Jacobsen. The committee is chaired by Ms. Zhou Jing. 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 unaudited financial statements of the Group for the six months ended 30 June 2013 have been reviewed by the audit committee.

By order of the Board  
**Perception Digital Holdings Limited**  
**Mr. Mung Wai Ming**  
*Executive Director*

Hong Kong, 20 August 2013

*As at the date of this report, the executive Directors are Mr. Mung Wai Ming, Ms. Liu Yee Nee and Mr. Lee Rabi; and the independent non-executive Directors are Mr. Ng Wai Hung, Mr. William Keith Jacobsen and Ms. Zhou Jing.*