THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Response Document or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Perception Digital Holdings Limited, you should at once hand this Response Document to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

RESPONSE DOCUMENT RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY CCB INTERNATIONAL CAPITAL LIMITED FOR AND ON BEHALF OF NAT-ACE PHARMACEUTICAL LTD. TO ACQUIRE ALL THE ISSUED SHARES IN, AND CANCEL ALL OUTSTANDING OPTIONS OF, PERCEPTION DIGITAL HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY NAT-ACE PHARMACEUTICAL LTD. AND PARTIES ACTING IN CONCERT WITH IT)

Financial Adviser to Perception Digital Holdings Limited

中國銀河國際
CHINA GALAXY INTERNATIONAL

Independent Financial Adviser to the Independent Board Committee

PLATINUM
Securities

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Response Document.

A letter from the Board is set out on pages 6 to 11 of this Response Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Independent Shareholders and the holder of the Options is set out on pages 12 to 13 of this Response Document. A letter from Platinum Securities containing its advice in respect of the Offers to the Independent Board Committee, the Independent Shareholders and the holder of the Options is set out on pages 14 to 32 of this Response Document.

The Response Document will remain on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.perceptiondigital.com as long as the Offers remain open.

15 August 2014

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Any changes to the timetable will be announced by the Offeror. All time and date references contained in this Response Document refer to Hong Kong time and date.

Despatch date of the Offer Document and commencement of the Offers *(Note 1)*	Wednesday, 16 July 2014
Despatch date of this Response Document *(Note 2)*	Friday, 15 August 2014
Latest time and date for acceptance of the Offers	no later than 4:00 p.m. on Friday, 29 August 2014
First Closing Date *(Note 3)*	Friday, 29 August 2014
Announcement of the result of the Offers, as at the First Closing Date, on the website of the Stock Exchange and on the website of the Company	no later than 7:00 p.m. Friday, 29 August 2014
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Offers on or before 4:00 p.m. on the First Closing Date *(Note 4)*	Wednesday, 10 September 2014

Notes:

1 The Offers are made on Wednesday, 16 July 2014, namely the date of posting of the Offer Document, and are capable of acceptance on and from that date until the close of the Offer Period on Friday, 29 August 2014, or if the Offers are extended, any subsequent closing date of the Offers as extended and announced by the Offeror in accordance with the Takeovers Code.

2. In accordance with the Takeovers Code, the Company is required to post the Response Document to the Shareholders and the holder of the Options within 14 days from the posting of the Offer Document, unless the Executive consents to a later date and the Offeror agrees to extend the closing date by the number of days in respect of which the delay in the posting of the Response Document is agreed. As additional time is required to compile and ascertain the relevant information to be included in the Response Document, including the preparation of the financial information of the Group for the six months ended 30 June 2014, the Executive has granted a consent for an extension of the deadline for the despatch of the Response Document to a date falling on or before 15 August 2014 pursuant to Rule 8.4 of the Takeovers Code and the Offeror has agreed to an extension of the First Closing Date by the number of days in respect of which the delay in the despatch of the Response Document is agreed.

3. In accordance with the Takeovers Code, where the Response Document is posted after the date on which the Offer Document is posted, the Offers must remain open for acceptance for at least 28 days following the date on which the Offer Document is posted. If the Response Document may not be issued within 14 days from the posting of the Offer Document, the Offers should be kept open for at least 14 days after despatch of the delayed Response Document to allow the Independent Shareholders and the holder of the Options sufficient time to consider the Response Document. The Offeror reserves its right, as permitted under the Takeovers Code, to revise or extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any revision or extension of the Offers, which will state the next closing date.

4. Remittance in respect of the consideration (after deducting the seller's ad valorem stamp duty, where applicable) payable for the Disinterested Shares/Options tendered under the Offers will be posted by ordinary post to the Independent Shareholders/the holder of the Options accepting the Offers at their own risk as soon as possible, but in any event within 7 Business Days following the date of receipt by the Registrar of all the relevant documents to render the acceptance under the Offers complete and valid in accordance with the Takeovers Code.

   Acceptances of the Offers shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in Appendix I to the Offer Document. If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning:

   (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the last date for acceptance of the Offers and the last date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the last time for acceptance of the Offers and the posting of remittances will remain at 4:00 p.m. on the same Business Day; or

   (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the last date for acceptance of the Offers and the last date for posting of remittances for the amounts due under the Offers in respect of valid acceptances, the last time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the next Business Day.

DEFINITIONS

In this Response Document, the following terms and expressions shall have the following meanings, unless the context otherwise requires:

"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day on which commercial banks are open for business in Hong Kong (excluding Saturdays, Sundays, public holidays and any weekday on which a tropical cyclone warning signal number 8 or above is hoisted or a black rainstorm warning is given in Hong Kong at any time during 9:00 a.m. to 5:00 p.m.)
"BVI"	the British Virgin Islands
"CCB International"	CCB International Capital Limited, a corporation licensed to carry out type 1, type 4 and type 6 regulated activity under SFO and the financial adviser to the Offeror
"Closing Date"	the First Closing Date, or if the Offers are extended, any subsequent closing date of the Offers as extended and announced by the Offeror, in accordance with the Takeovers Code
"Company"	Perception Digital Holdings Limited 幻音數碼控股有限公司, an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Share Subscription and the Share Purchase
"Director(s)"	the director(s) of the Company
"Disinterested Shares"	all the Shares in issue, other than the Shares which are owned or agreed to be acquired by the Offeror and the parties acting in concert with it as at the date of this Response Document

"First Closing Date"	29 August 2014, being the first closing date of the Offers
"First Vendor"	Swanland Management Limited, a company incorporated in BVI
"Forms of Acceptance"	the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance (accompanying the Offer Document), and "Form of Acceptance" means either of them
"Fourth Vendor"	Keen Platinum Limited, a company incorporated in BVI
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the board committee of the Company comprising Mr. William Keith Jacobsen, Ms. Zhou Jing and Mr. Ng Wai Hung (all of whom are independent non-executive Directors) to advise the Independent Shareholders and the holder of the Options in respect of the Offers
"Independent Financial Adviser" or "Platinum Securities"	Platinum Securities Company Limited, an independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee, the Independent Shareholders and the holder of the Options in relation to the terms and conditions of the Offers
"Independent Shareholder(s)"	holders of the Disinterested Shares
"Joint Announcement"	the announcement jointly published by the Company and the Offeror dated 8 May 2014 in relation to, among others, the Offers
"Latest Practicable Date"	13 August 2014, being the latest practicable date prior to the date of this Response Document for ascertaining certain information herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Chan"	Mr. Chan Yuen Ming, the legal and beneficial owner of the entire issued share capital of the Third Vendor
"Mr. Mung"	Mr. Mung Wai Ming, an executive Director and the legal and beneficial owner of the entire issued share capital of the Fourth Vendor
"Ms. Loh"	Ms. Loh Jiah Yee Katherine, the majority ultimate beneficial owner of the First Vendor and the Second Vendor
"Offer Document"	the offer document issued by the Offeror on 16 July 2014 in connection with the Offers in accordance with the Takeovers Code containing, inter alia, the terms and conditions of the Offers, together with the Form(s) of Acceptance
"Offer Period"	has the meaning ascribed thereto in the Takeovers Code, being the period from 8 May 2014, i.e. the date of the Joint Announcement, to the Closing Date, or such other time or date to which the Offeror may decide to extend or revise the Offers in accordance with the Takeovers Code
"Offer Price"	the amount of HK$0.168 per Share
"Offeror"	Nat-Ace Pharmaceutical Ltd. 邦強醫藥有限公司*, a company incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jiangyuan and Gui Bin as to 60%, 20% and 20% respectively. As a result of Completion, the Offeror became the controlling shareholder, holding approximately 52.79 % of the enlarged issued share capital of the Company as at the Latest Practicable Date
"Offers"	the Share Offer and the Option Offer

"Option Agreement"	an option agreement dated 11 August 2011 entered into between Perception Digital Technology (BVI) Ltd., a subsidiary of the Company, and Teleepoch Limited comprising both the vested options to subscribe 25,277,957 Shares at a price of HK$0.233 per Share and the unvested options to subscribe 76,241,580 Shares at a price of HK$0.233 per Share
"Option Offer"	the unconditional mandatory cash offer to be made by CCB International for and on behalf of the Offeror for the cancellation of the Options
"Options"	the outstanding options granted by the Company pursuant to the Option Agreement
"Relevant Period"	the period commencing on the date falling six months preceding 8 May 2014, being the commencement date of the Offer Period and ending on and including the Latest Practicable Date
"Response Document"	this circular issued by the Company in respect of the Offers in accordance with the Takeovers Code
"Sale and Purchase Agreement"	the conditional agreement dated 26 April 2014 among the Vendors, Ms. Loh, Mr. Chan, Mr. Mung, and the Offeror in respect of the Share Purchase
"Sale Shares"	424,832,122 Shares, 177,634,699 Shares, 264,000,000 Shares and 143,971,300 Shares sold by the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor to the Offeror, respectively, pursuant to the Sale and Purchase Agreement
"Second Vendor"	Masteray Limited, a company incorporated in BVI
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Share Offer"	the unconditional mandatory cash offer for the Disinterested Shares at the Offer Price to be made by CCB International on behalf of the Offeror in accordance with the Takeovers Code
"Share Purchase"	the purchase of the Sale Shares by the Offeror
"Share Subscription"	the subscription of the Subscription Shares by the Offeror
"Shareholders"	registered holders of Shares
"Shares"	shares of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the conditional agreement dated 26 April 2014 between the Company and the Offeror in respect of the Share Subscription
"Subscription Shares"	616,275,000 Shares issued by the Company
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Third Vendor"	Capital Fame Technology Limited, a company incorporated in BVI
"trading day"	a day on which the Stock Exchange is open for the business of dealings in securities
"Vendors"	the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor
"Warrants"	the warrants issued by the Company entitling the holders thereof to subscribe Shares in aggregate up to HK$16,807,500 at a subscription price of HK$0.14 per Share
"%"	per cent.

* *For identification purpose only*

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

Executive Directors:
Mr. Mung, Wai Ming
Ms. Liu, Yee Nee
Mr. Lee Rabi
Ms. Deng Shufen
Mr. Dai Yumin
Ms. Liu Jiangyuan
Mr. Gui Bin

Non-executive Director:
Mr. Wang Yongbin

Independent non-executive Directors:
Mr. Ng, Wai Hung
Mr. William Keith Jacobsen
Ms. Zhou Jing
Mr. Fang Jun
Mr. Zhao Xianming
Mr. Wong Yiu Kit, Ernest

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office 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

15 August 2014

To the Independent Shareholders and the holder of the Options

Dear Sir or Madam,

RESPONSE DOCUMENT RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY CCB INTERNATIONAL CAPITAL LIMITED FOR AND ON BEHALF OF NAT-ACE PHARMACEUTICAL LTD. TO ACQUIRE THE ISSUED SHARES IN, AND CANCEL ALL OUTSTANDING OPTIONS OF, PERCEPTION DIGITAL HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY NAT-ACE PHARMACEUTICAL LTD. AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

On 8 May 2014, the Company and the Offeror jointly announced that on 26 April 2014: (a) the Vendors, Ms. Loh, Mr. Chan, Mr. Mung and the Offeror, entered into the Sale and Purchase Agreement pursuant to which the Offeror has agreed to purchase, and the Vendors have agreed to sell, at the Offer Price, 1,010,438,121 Shares, representing approximately 32.79% of the existing issued share capital of the Company as at the Latest Practicable Date; and (b) the Company and the Offeror entered into the Subscription Agreement pursuant to which the Company agreed to issue, and the Offeror agreed to subscribe for the Subscription Shares, representing 20% of the existing issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK$103,534,200 in cash at the Offer Price. The Share Purchase and the Share Subscription were completed on 9 July 2014, upon which the Offeror became the controlling shareholder holding approximately 52.79% of the enlarged issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer to acquire all the Disinterested Shares and cancel the Options. CCB International is making the Offers on behalf of the Offeror. The purpose of this Response Document is to provide you with, among others, information relating to the Company and the Offers as well as to set out the "Letter from the Independent Board Committee" containing its recommendation to the Independent Shareholders and the holder of the Options in relation to the terms and conditions of the Offers and the "Letter from Platinum Securities" containing its advice to the Independent Board Committee, the Independent Shareholders and the holder of the Options in respect of the Offers.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. William Keith Jacobsen, Ms. Zhou Jing and Mr. Ng Wai Hung (being all the independent non-executive Directors when the Company was approached by the Offeror with a view of making the Offers), has been formed to advise the Independent Shareholders and the holder of the Options in respect of the Offers. As none of Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming or Mr. Wong Yiu Kit, Ernest had been appointed as a non-executive Director or an independent non-executive Director of the Company at the time when the Independent Board Committee was formed and held discussion regarding the Offers, none of them will sit on the Independent Board Committee for the present purpose of providing recommendations to the Independent Shareholders and the holder of the Options in relation to the terms and conditions of the Offers.

UNCONDITIONAL MANDATORY CASH OFFER

Principal terms of the Offers

The terms of the Offers are set out in the Offer Document and the Forms of Acceptance. You are recommended to refer to the Offer Document and the Forms of Acceptance for further details.

CCB International, on behalf of the Offeror and in compliance with the Takeovers Code, is making an unconditional mandatory cash offer to acquire all the Disinterested Shares, and to cancel all the Options on the following terms:

For each Disinterested Share	**HK$0.168 payable in cash**
For each Option	**HK$0.0001 payable in cash**

As at the Latest Practicable Date, the Company has 3,081,375,000 Shares in issue and save for the Options and the Warrants, the Company has no outstanding warrants, options, derivatives in respect of the Shares or securities convertible into Shares.

The Offers shall be unconditional in all respects.

Further details of the Offers

Further details of the Offers including, among others, the terms and conditions and the procedures for acceptance and settlement are set out in the Offer Document and the Forms of Acceptance.

GENERAL INFORMATION ON THE GROUP

The Company was incorporated as an exempted company with limited liability in the Cayman Islands and its Shares have been listed on the Stock Exchange since 16 December 2009.

The Group is principally engaged in the research, design, development and sale of digital signal processing ("**DSP**") based consumer electronics devices and platforms, including embedded firmware; the provision of solutions and services to customers for their DSP-based consumer electronic devices and platforms; and the trading of electronic components.

Please refer to Appendix I to this Response Document for the financial information in relation to the Group.

SHAREHOLDING STRUCTURE

The table below sets out the shareholding structure of the Company (i) immediately before completion of the Share Subscription and the Share Purchase and (ii) immediately after completion of the Share Subscription and the Share Purchase.

Shareholder	Immediately before completion of the Share subscription and the Share Purchase		Immediately after completion of the Share Subscription and the Share Purchase and as at the Latest Practicable Date	
	Number of Shares	*% of issued share capital*	*Number of Shares*	*% of issued share capital*
The Offeror and parties acting in concert with it	–	–	1,626,713,121	52.79
The First Vendor	424,832,122	17.23	–	–
The Second Vendor	177,634,699	7.21	–	–
The Third Vendor	264,000,000	10.71	–	–
The Fourth Vendor	143,971,300	5.84	–	–
Mr. Lee Rabi (a Director)	270,000	0.01	270,000	0.01
Other public Shareholders	1,454,391,879	59.00	1,454,391,879	47.20
Total	2,465,100,000	100.00	3,081,375,000	100.00

INFORMATION ON THE OFFEROR

According to the information as disclosed in the Offer Document, the Offeror was incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jiangyuan and Gui Bin as to 60%, 20% and 20%, respectively. Thus, Deng Shufen is the controlling shareholder of the Offeror. The Offeror is an investment holding company.

Please refer to the section headed "Information of the Offeror" in the "Letter from CCB International" of the Offer Document for further information of the Offeror.

INTENTION OF THE OFFEROR REGARDING THE GROUP

As disclosed in the Offer Document, the Board noted that the Offeror intends to continue the current business operation of the Group after Completion. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror may explore other business opportunities for the Company such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. As confirmed by the Offeror, as at the date of this Response Document, it has no intention to introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group.

Please refer to the section headed "Offeror's intention on the Group" in the "Letter from CCB International" of the Offer Document for further information.

CHANGE OF BOARD COMPOSITION

In connection with the Offers, the Offeror has nominated four executive Directors, namely Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan and Mr. Gui Bin, one non-executive Director, namely Mr. Wang Yongbin and three independent non-executive Directors, namely Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest to the Board with effect from 16 July 2014 immediately after the despatch of the Offer Document.

As set out in the joint announcement dated 9 July 2014 issued by the Company and the Offeror in relation to the appointment and resignation of directors and authorised representatives of the company and resignation of company secretary, Mr. Mung, Ms. Liu, Yee Nee, Mr. Lee Rabi, Mr. Ng Wai Hung, Mr. William Keith Jacobsen and Ms. Zhou Jing have tendered their resignation to the Board on 9 July 2014, but each of them has indicated in his/her resignation letter that his/her resignation is subject to the Takeovers Code and shall not take effect until the date immediately after the First Closing Date of the Offers, i.e. 29 August 2014.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror has stated in the Offer Document that it intends to maintain the listing of the Shares on the Main Board of the Stock Exchange following the close of the Offers. The Company and the Directors will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that not less than 25% of the Shares will be held by the public.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) there is insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Platinum Securities, respectively, which set out their recommendations and opinions in relation to the Offers and the principal factors considered by them before arriving at their recommendations.

ADDITIONAL INFORMATION

You are advised to read this Response Document together with the Offer Document and the Form(s) of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Response Document.

Yours faithfully,
By order of the Board
Perception Digital Holdings Limited
Mung Wai Ming
Chairman

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

15 August 2014

To the Independent Shareholders and the holder of the Options

Dear Sir or Madam,

RESPONSE DOCUMENT RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY CCB INTERNATIONAL CAPITAL LIMITED FOR AND ON BEHALF OF NAT-ACE PHARMACEUTICAL LTD. TO ACQUIRE THE ISSUED SHARES IN, AND CANCEL ALL OUTSTANDING OPTIONS OF, PERCEPTION DIGITAL HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY NAT-ACE PHARMACEUTICAL LTD. AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to the Response Document dated 15 August 2014 issued by the Company (the "**Response Document**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Response Document unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the holder of the Options are concerned and as to acceptance of the Offers. Platinum Securities has been appointed as the Independent Financial Adviser to advise us in this respect. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the "Letter from Platinum Securities" on pages 14 to 32 of the Response Document.

RECOMMENDATION

Having taken into account the terms of the Offers, the advice from the Independent Financial Adviser and the principal factors taken into account in arriving at its recommendation, we consider that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the holder of the Options are concerned and recommend the Independent Shareholders and the holder of the Options to accept the Offers. However, we would like to remind the Independent Shareholders and the holder of the Options to closely monitor the market price and liquidity of the Shares during the Offer Period. Should the market price of the Shares exceed the Offer Price during the Offer Period, and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Offers, the Independent Shareholders and the holder of the Options may wish to consider selling their Shares/Options in the market instead of accepting the Offers. In any case, the Independent Shareholders and the holder of the Options are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in any doubt, the Independent Shareholders and the holder of the Options should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders and the holder of the Options who wish to accept the Offers are recommended to read carefully the procedures for accepting the Offers as detailed in the Offer Document.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Perception Digital Holdings Limited
Mr. Ng Wai Hung, Mr. William Keith Jacobsen, Ms. Zhou Jing
Independent Non-executive Directors

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders and the holder of the Options in relation to the Offers, which has been prepared for the purpose of incorporation into this Response Document.

PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong
Telephone (852) 2841 7000
Facsimile (852) 2522 2700
Website www.platinum-asia.com

15 August 2014

To the Independent Board Committee, the Independent Shareholders and the holder of the Options

Dear Sir or Madam,

RESPONSE DOCUMENT RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY CCB INTERNATIONAL CAPITAL LIMITED FOR AND ON BEHALF OF NAT-ACE PHARMACEUTICAL LTD. TO ACQUIRE ALL THE ISSUED SHARES IN, AND CANCEL ALL OUTSTANDING OPTIONS OF, PERCEPTION DIGITAL HOLDINGS LIMITED (OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY NAT-ACE PHARMACEUTICAL LTD. AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the holder of the Options in respect of the unconditional mandatory cash offer by CCB International Capital Limited for and on behalf of the Offeror to acquire all the issued shares in, and cancel all outstanding options of, Perception Digital Holdings Limited (other than those already owned by or agreed to be acquired by the Offeror and the parties acting in concert with it). Details of the Offers are set out in the response document in connection with the Offers to the Independent Shareholders and the holder of the Options dated 15 August 2014. Terms used in this letter shall have the same meanings as defined in the Response Document unless the context requires otherwise.

The Company has established the Independent Board Committee, comprising Mr. William Keith Jacobsen, Ms. Zhou Jing and Mr. Ng Wai Hung (being all the independent non-executive Directors when the Company was approached by the Offeror with a view of making the Offers), to advise the Independent Shareholders and the holder of the Options in relation to the terms and conditions of the Offers. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee, the Independent Shareholders and the holder of the Options as to whether the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the holder of the Options are concerned and as to acceptance of the Offers.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: (i) the annual report of the Company for the year ended 31 December 2012 (the "2012 Annual Report"); (ii) the annual report of the Company for the year ended 31 December 2013 (the "2013 Annual Report"); (iii) the unaudited interim results of the Company for the six months ended 30 June 2014 (the "2014 Interim Result"); (iv) the information and facts contained or referred to in the Offer Document and the Response Document; (v) the information and facts supplied by the Company and its advisers; and (vi) the opinions expressed by and the representations of the Directors and management of the Group.

We have assumed that all information, facts, opinions and representations contained in the Offer Document and Response Document are true, complete and accurate in all material respects and we have relied on the same. The Directors other than Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest have confirmed that they take full responsibility for the accuracy of the information contained in the Response Document (other than those relating to the Offeror, its ultimate beneficial owner(s) and parties acting in concert with them and the terms of the Offers) and have made all reasonable enquiries that, to the best of their knowledge opinions expressed in this Response Document (other than opinions expressed by the directors of the Offeror) have been arrived at after due and careful consideration and no material facts have been omitted from the information supplied to us.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Offer Document and confirm, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in the Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Offer Document, the omission of which would make any statement in the Offer Document misleading.

The information contained in this Response Document relating to the Offeror, its ultimate beneficial owner(s) and parties acting in concert with them and the terms of the Offers has been extracted or derived from the Offer Document and confirmation from the Offeror. The Directors other than Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Offer Document and the Response Document and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company, which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Offers.

We are independent from, and are not associated with the Offeror, the Company or any other party to the Offers, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Offers. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee in relation to the Offers. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Offers or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

We have not considered the tax implications on the Independent Shareholders and the holder of the Options of their acceptances or non-acceptances of the Offers since this is particular to their own individual circumstances. In particular, the Independent Shareholders and the holder of the Options who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offers and, if in doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

On 8 May 2014, the Offeror and the Company jointly announced that on 26 April 2014, (i) the Vendors, Ms. Loh, Mr. Chan, Mr. Mung and the Offeror, entered into the Sale and Purchase Agreement pursuant to which the Offeror has agreed to purchase, and the Vendors have agreed to sell, at the Offer Price, 1,010,438,121 Shares, representing approximately 32.79% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) the Company and the Offeror entered into the Subscription Agreement pursuant to which the Company agreed to issue, and the Offeror agreed to subscribe for the Subscription Shares, representing approximately 20.00% of the existing issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK$103,534,200 in cash at the Offer Price. The Share Purchase and the Share Subscription were completed on 9 July 2014, upon which the Offeror became the controlling shareholder holding approximately 52.79% of the enlarged issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, CCB International, on behalf of the Offeror, is making an unconditional mandatory cash offer to acquire all the Disinterested Shares, and to cancel all the Options on the following terms:

For each Disinterested Share HK$0.168 payable in cash

For each Option HK$0.0001 payable in cash

SHAREHOLDING STRUCTURE

The table below sets out the shareholding structure of the Company (i) immediately before completion of the Share Subscription and the Share Purchase; and (ii) immediately after completion of the Share Subscription and the Share Purchase.

	Immediately before completion of the Share Subscription and the Share Purchase		**Immediately after completion of the Share Subscription and the Share Purchase and as at the Latest Practicable Date**	
	Number of Shares	*% of issued share capital*	*Number of Shares*	*% of issued share capital*
Shareholder				
The Offeror and parties acting in concert with it	–	–	1,626,713,121	52.79
The First Vendor	424,832,122	17.23	–	–
The Second Vendor	177,634,699	7.21	–	–
The Third Vendor	264,000,000	10.71	–	–
The Fourth Vendor	143,971,300	5.84	–	–
Mr. Lee Rabi (a Director)	270,000	0.01	270,000	0.01
Other public Shareholders	1,454,391,879	59.00	1,454,391,879	47.20
Total	2,465,100,000	100.00	3,081,375,000	100.00

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee, the Independent Shareholders and the holder of the Options regarding the Offers, we have taken into account the following principal factors:

1. Information and historical financial performance of the Group

The Group is principally engaged in the research, design, development and sale of digital signal processing ("DSP") based consumer electronic devices/platforms, including embedded firmware; the provision of solutions and services to customers for their DSP-based consumer electronic devices and platforms; and the trading of electronic components.

Set out below are the financial performance of the Group for the three years ended 31 December 2013 and six months ended 30 June 2014 as extracted from the 2012 Annual Report, the 2013 Annual Report and the 2014 Interim Result, which were prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the six months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Revenue	533,406,703	340,869,541	200,022,317	94,399,125	17,166,563
Costs of sales	(486,958,388)	(315,323,262)	(179,396,792)	(80,839,055)	(11,475,785)
Gross profit	46,448,315	25,546,279	20,625,525	13,560,070	5,690,778
Other income	8,748,028	1,358,878	1,067,008	444,373	4,973,144
Research and development costs	(8,321,705)	(23,678,720)	(5,125,959)	(1,744,932)	(2,602,784)
Selling and distribution expenses	(13,923,258)	(16,188,543)	(12,729,657)	(8,111,322)	(5,796,371)
General and administrative expenses	(45,467,014)	(39,304,434)	(19,385,288)	(10,992,314)	(7,485,240)
Other expenses, net	(7,435,420)	(37,187,744)	(42,893,891)	(6,776,600)	(5,338,671)
Finance costs	(5,434,911)	(8,556,469)	(6,853,092)	(3,690,951)	(58,863)
Loss before tax	(25,385,965)	(98,010,753)	(65,295,354)	(17,311,676)	(10,618,007)
Income tax credit	3,397,094	1,364,311	64,217	–	–
Loss for the year/period	(21,988,871)	(96,646,442)	(65,231,137)	(17,311,676)	(10,618,007)

Financial results for the six months ended 30 June 2014 compared with that for six months ended 30 June 2013

During the six months ended 30 June 2014, revenue of the Group decreased by approximately 81.8% to HK$17.2 million from HK$94.4 million as recorded in the corresponding period in the financial year ended December 2013 ("FY2013"). The decrease was mainly attributable to the decrease in sales of products by HK$83.6 million, or approximately 91.0%, from HK$91.9 million in the six months ended 30 June 2013 to HK$8.3 million in the six months ended 30 June 2014. This was mainly because since FY2013, the Group's product mix had been shifting from the traditional audio and visual products with relatively higher sales volume but lower profit margin to the golf swing analyser ("3BaysGSA") with relatively lower sales volume but much higher profit margin. Accordingly, the Group had ceased the business with one of its largest customers since December 2013.

Besides the shift of product mix to more profitable products, the Group also focused on the provision of project management services during 2014. The income from rendering of such services during the six months ended 30 June 2014 amounted to HK$8.9 million, representing an increase of 310.3% as compared to six months ended 30 June 2013.

As a result of the shift of product mix, the overall gross profit margin for the six month ended 30 June 2014 increased to 33.2% from 14.4% as recorded in the corresponding period in FY2013; and the gross profit decreased by 58.0% to HK$5.7 million during the six months ended 30 June 2014. However, with the cost-saving measures (the "Cost-saving Measures"), including but not limited to (a) streamline the operation flows; (b) reduction of manpower; and (c) tightening of cost control policies in 2013, the net loss of the Group for the six months ended 30 June 2014 was narrowed down to HK$10.6 million, as compared to the net loss of HK$17.3 million recorded in the corresponding period in FY2013.

Financial results for the year ended 31 December 2013 compared with that for the year ended 31 December 2012

During FY2013, revenue of the Group decreased by approximately 41.3% to approximately HK$200.0 million from HK$340.9 million as recorded in the year ended 31 December 2012 ("FY2012"). The decrease was mainly attributable to the decrease in sales of goods by 42.6% from approximately HK$337.2 million in FY2012 to approximately HK$193.5 million during FY2013, which was mainly because of the change in product mix in FY2013 where the Group has been focusing on the promotion and sale of 3BaysGSA, which was launched in the second half of 2012 with much higher profit margin than the traditional products of the Group. As discussed with the management of the Company, the market for golf swing analyser is very niche and therefore relatively small as compared with other traditional products of the Group. As such, the sales volume generated by this new product was relatively small so far as compared with other traditional products of the Group and given the uniqueness of this new product, the management of the Company considers further market expansion opportunities will be limited. As a result, it does not significantly improve the future prospect of the Group.

The overall gross profit of the Group during FY2013 was approximately HK$20.6 million, which decreased by approximately 19.3% as compared to the gross profit in FY2012. However, the gross profit margin increased by approximately 2.8 percentage point from 7.5% to 10.3%. This was mainly contributed by the increase in sale of the 3BaysGSA, which commanded a higher profit margin than other products of the Group.

During FY2013, the net loss of the Group narrowed down to approximately HK$65.2 million from HK$96.6 million as recorded in FY2012, mainly because of (i) the decrease in operating expenses by approximately 49.7% from approximately HK$87.7 million in FY2012 to approximately HK$44.1 million in FY2013 after the implementation of certain cost-saving measures, including but not limited to (a) streamlining the operation flows and focus on core product development; (b) centralizing employees in Hong Kong from two office premises to one office premise; and (c) tightening cost control policies on various expenditures in 2013; and (ii) the increase in other expenses resulted from impairment of certain trade and other receivables amounted to approximately HK$38.7 million.

Financial results for the year ended 31 December 2012 compared with that for the year ended 31 December 2011

For FY2012, the 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 ("FY2011"). The decrease was mainly attributable to (i) the decrease in sales of products by 34.6% from HK$515.3 million in FY2011 to HK$337.2 million in FY2012; 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 FY2011 to HK$3.6 million in FY2012, 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 FY2012 was severely encumbered by the continuing impact from the European debt crisis during FY2012, which led to a decrease by approximately 45.0% to HK$25.5 million from HK$46.4 million as recorded in FY2011. This was mainly resulted from the decline in service income from the provision of project development and management services, which commanded higher profit margin. This led to a net decrease in the overall gross profit margin of the Group by 1.2% for FY2012 as compared to FY2011.

The net loss of the Group increased significantly to HK$96.6 million during FY2012 from HK$22.0 million as recorded in FY2011 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; (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; and (c) impairment of certain trade and other receivables amounted to HK$17.3 million.

As illustrated by the financial performance of the Group for the three years ended 31 December 2013 and the six months ended 30 June 2014 and in summary, the Group's revenue had been decreasing and the Group was loss-making for all three years ended 31 December 2013 and the six months ended 30 June 2014. Furthermore, as discussed above, the launching of new product 3BaysGSA and the Cost-saving Measures did not significantly improve the future prospect of the Group and therefore, in terms of financial performance and future prospect, we are of the view that the Group is was not performing quite well for the three years ended 31 December 2013 and the six months ended 30 June 2014 and the Offeror may formulate new business plans and strategies for the future business development of the Group as stated in section headed "Intentions of the Offeror regarding the Group" below.

2. Information on the Offeror and its intentions regarding the future of the Group

(i) Background of the Offeror

The Offeror was incorporated in BVI on 2 January 2008 with limited liability and held by Deng Shufen, Liu Jiangyuan and Gui Bin as to 60%, 20% and 20%, respectively. Thus, Deng Shufen is the controlling shareholder of the Offeror. Deng Shufen, aged 49, has served as the general manager and the vice chairman of the board of directors of Huashang Group Company Limited (華商集團有限公司) since 1993, the deputy general manager of China Wood (Group) Company Limited* (中國木材(集團)有限公司) since 2006 and the sole director of the Offeror since 2013. Ms. Deng was also appointed as the general manager of the legal department of China Leasing Company Limited* (中國租賃有限公司) in 2003 and the vice chairman of the board of directors of Jiangxi Juye Asset Management Company Limited* (江西聚業資產管理有限公司) in 2006. She graduated from Jiangxi University (later reorganised as Nanchang University) with a bachelor degree of law. Under the SFO, Deng Shufen is deemed to be interested in the Shares held by the Offeror. Save as disclosed above, Deng Shufen does not hold any Shares in the Company immediately before the Completion.

(ii) Intentions of the Offeror regarding the Group

The Offeror intends to continue the current business operation of the Group after Completion. The Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror may explore other business opportunities for the Company such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. As at the Latest Practicable Date, the Offeror had no plan, and had not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group, other than in the ordinary course of business. As at the Latest Practicable Date and confirmed by the Offeror, it has no intention to introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group.

(iii) Intentions of the Offeror regarding the composition of the Board

As set out in the joint announcement dated 9 July 2014 issued by the Company and the Offeror in relation to the appointment and resignation of directors and authorised representatives of the Company and resignation of company secretary, three executive Directors, namely Mr. Mung, Ms. Liu Yee Nee and Mr. Lee Rabi and three independent non-executive Directors, namely, Mr. Ng Wai Hung, Mr. William Keith Jacobsen and Ms. Zhou Jing have tendered their resignation to the Board on 9 July 2014, but each of them has indicated in his/her resignation letter that his/her resignation is subject to the Takeovers Code and shall not take effect until the date immediately after the First Closing Date of the Offers, i.e. 29 August 2014. Save as disclosed above, as at the Latest Practicable Date, the Offeror has no plan for discontinuing the employment of employees of the Group, other than in the ordinary course of business.

In connection with the Offers, the Offeror has nominated four executive Directors, namely Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan and Mr. Gui Bin, one non-executive Director, namely Mr. Wang Yongbin and three independent non-executive Directors, namely Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest to the Board with effect from 16 July 2014 immediately after the despatch of the Offer Document.

We have look into the biographical details of the above nominated Directors (reference to the announcement made by the Company on 9 July 2014) and understand from the management of the Company that these nominated Directors have working track record and experience in managing companies from different sectors (e.g. biochemical companies, leasing companies, asset management and investment companies). Although they were not working in same industry as the Group before, most of them were holding senior management positions or directorships in their past working experience and this would help them manage the Company smoothly after Completion. In particular, Ms. Deng Shufen has more than 20 years experience in senior management position of several companies in China as discussed in the section headed "Background of the Offeror" above. Although she was not working in a similar business as the Group before, we consider her legal background and also her management experience will help her continue the existing business of the Group and enhance its growth and future development. As such, we consider the nomination of the new Directors would facilitate the Company in its future operation and is in the interests of the Company and its Shareholders as a whole.

(iv) Public float and maintaining the listing status of the Company

As disclosed in the Offer Document, the Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange. The Company and the newly appointed Directors will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that not less than 25% of the Shares will be held by the public.

Please note that the Stock Exchange may exercise its discretion, if upon the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at any time, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, to suspend trading in the Shares until a level of sufficient public float is attained.

3. Offer Price

The Share Offer is being made by CCB International, on behalf of the Offeror, at a price of HK$0.168 per Share in cash, which is the same as (i) the subscription price per Subscription Share paid by the Offeror to the Company under the Subscription Agreement; and (ii) the purchase price per Sale Share paid by the Offeror to the Vendors under the Share and Purchase Agreement.

The Offer Price represents:

(a) a premium of approximately 1,300.0% to the audited net asset value per Share of approximately HK$0.012 as at 31 December 2013;

(b) a premium of approximately 522.2% to the unaudited net asset value per Share of approximately HK$0.027 as at 30 June 2014;

(c) a discount of approximately 6.7% to the closing price of HK$0.180 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the date of the Subscription Agreement;

(d) a premium of approximately 16.7% to the average closing price of HK$0.144 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;

(e) a premium of approximately 25.4% to the average closing price of HK$0.134 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;

(f) a premium of approximately 35.5% over the average closing price of HK$0.124 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Subscription Agreement;

(g) a premium of approximately 52.7% to the average closing price of HK$0.110 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days immediately prior to the date of the Subscription Agreement; and

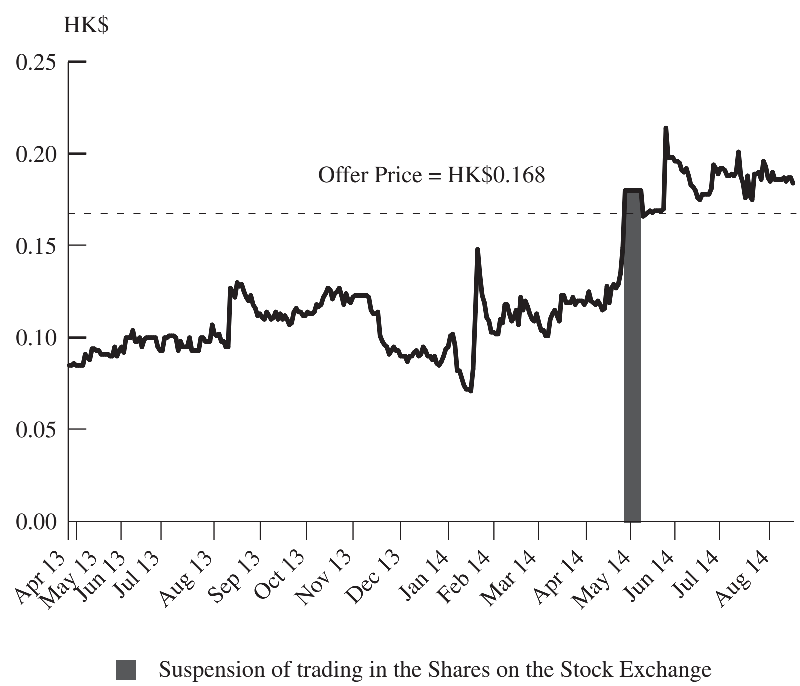
(h) a discount of approximately 8.7% to the closing price of HK$0.184 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(i) Offer Price to the net asset value per Share

The Offer Price represents large premium to the net asset value per Share as disclosed in (a) and (b) above. For the six months ended 30 June 2014, the Group still recorded net loss but the net asset value per Share had increased substantially. This was mainly because the Group made the open offer on 24 January 2014 at HK$0.05 per Share (the "Open Offer") (details of which are set out in the announcements of the Company dated 24 January 2014), in which the subscription price of HK$0.05 per Share was approximately 317% higher than the net asset value per Share as of 31 December 2013 (HK$0.012 per Share). Therefore, upon completion of the Open Offer, the net asset value per Share immediately increased and this explained the increase of net asset value per Share as of 30 June 2014 compared to 31 December 2013.

(ii) Historical price performance of the Shares

As the Company is a listed company, price of the Share should reflect the prevailing market assessment of its fair value. Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange from 26 April 2013, being the twelve-month period leading up to 25 April 2014, being the last trading day immediately prior to the date of the Subscription Agreement (both dates inclusive) (the "Pre-Announcement Period") and from 9 May 2014, being the first day of trading in the Shares after the publication of the Joint Announcement, to the Latest Practicable Date (both dates inclusive) (the "Post-Announcement Period", collectively known as the "Review Period"):



Source: website of the Stock Exchange

Pre-Announcement Period

The closing prices of the Shares were below the Offer Price of HK$0.168 consistently until 25 April 2014, in which the share price rose by 20.8% to HK$0.18 on a single day before suspension of trading. Such rise in share price might reflect purely a speculation on the Joint Announcement, or might be due to the speculation of the prospects of the Company as investors may consider after a change of controlling shareholder, the Offeror may review business plans and strategies for the future business development of the Group and also explore other business opportunities for the Group such as acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhance its growth and future development. The highest and lowest closing prices of the Shares during the Pre-Announcement Period were HK$0.180 per Share on 25 April 2014 and HK$0.071 per Share on 15 January 2014, respectively. The Offer Price therefore represents a discount of approximately 6.7% of the aforesaid highest closing price of the Shares and a premium of approximately 136.6% over the aforesaid lowest closing price of the Shares during the Pre-Announcement Period.

Post-Announcement Period

Trading in the Shares on the Stock Exchange was resumed on 9 May 2014. During the Post-Announcement Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$0.214 and HK$0.166, respectively. The Offer Price represents a discount of approximately 21.5% to the aforesaid highest closing price of HK$0.214 and a premium of approximately 1.2% over the aforesaid lowest closing price of HK$0.166 during the Post-Announcement Period. We also noted that besides the Joint Announcement and announcements relating to the Offers, the Company had not published other material announcements during the relevant time. Hence, we consider the movements of the price of the Shares during the Post-Announcement Period probably reflected the market reaction to the introduction of a new controlling shareholder and the Offers. After taking into account the historical price performance of the Shares and in the view that (i) it is generally common to have an immediate positive reaction on the share prices of listed companies upon announcement of any change in control which may attract speculation on the prospect of the relevant companies; (ii) the share prices will normally be affected by, among others, general economic environment and other market factors in the volatile stock market in Hong Kong.

We would like to remind the Independent Shareholders that the Offer Price is at a discount of approximately 8.7% to the closing price of the Shares on the Latest Practicable Date, and there is no guarantee that the trading price of the Shares will sustain and will or will not be higher than the Offer Price during and after the period of the Offer. The Independent Shareholders and, in particular those who may wish to realise their investments in the Shares, are thus reminded to closely monitor the market price of the Shares during the period of the Offer remains open for acceptance.

(iii) Trading volume of Shares

The following table sets out the trading volume of the Shares during the Review Period:

Month/period	**Total trading volume for the month/period (Number of Shares)**	**Average daily trading volume for the month/period (Number of Shares)** *(Note 1)*	**Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date**	**Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date** *(Note 2)*
2013				
26-30 April	275,000	91,667	0.002975%	0.006303%
May	9,270,477	441,451	0.014326%	0.030353%
June	13,300,000	700,000	0.022717%	0.048130%
July	2,662,500	121,023	0.003928%	0.008321%
August	108,707,500	5,176,548	0.167995%	0.355925%
September	62,270,000	3,113,500	0.101043%	0.214076%
October	21,339,443	1,016,164	0.032978%	0.069869%
November	31,510,000	1,500,476	0.048695%	0.103169%
December	33,213,300	1,660,665	0.053894%	0.114183%
2014				
January	537,848,155	25,611,817	0.831181%	1.760998%
February	160,837,000	8,465,105	0.274718%	0.582037%
March	79,995,000	3,809,286	0.123623%	0.261916%
1 April – 25 April	204,483,000	12,028,412	0.390359%	0.827041%
9 May – 30 May	846,705,622	52,919,101	1.717386%	3.638572%
June	401,278,464	20,063,923	0.651135%	1.379540%
July	332,006,908	15,091,223	0.489756%	1.037631%
1 August – Latest Practicable Date	116,465,964	12,940,663	0.419964%	0.889765%

Source: Website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

2. Based on 1,454,391,879 Shares held by the Independent Shareholders as at the Latest Practicable Date.

As shown in the chart above, prior to the publication of the Joint Announcement on 8 May 2014, the average daily trading volume of the Shares in each month ranged from 91,667 Shares in 26-30 April 2013 to 25,611,817 Shares in January 2014, representing approximately 0.003% and 0.831%, respectively, of the total number of Shares in issue as at the Latest Practicable Date and less than 0.007% and 1.761%, respectively, of the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date. The comparatively higher trading volume of the Shares in May 2014 was due to the release of the Joint Announcement dated 8 May 2014. The average daily trading volume of Shares traded from 9 May 2014 up to the Latest Practicable Date represented approximately 0.822% of the total number of Shares in issue as at the Latest Practicable Date and approximately 1.741% of the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date. On this basis, we consider the liquidity of the Shares during the Review Period was generally low.

(iv) Comparison with Comparable Companies

In our assessment, we have considered the price-to-earnings ("P/E") ratio, price-to-book ("P/B") ratio and price-to-sales ("P/S") ratio, which are commonly used benchmarks in valuing a company engaged in business of research, design, development and sale of consumer electronic devices. Given the Group recorded net loss historically, we consider the P/E ratio of the Group is not representative and hence, should not be evaluated against the P/E ratio of the Comparable Companies. Furthermore, as discussed in section headed "Information and historical financial performance of the Group" above, the revenue of the Group had been decreasing for the last three years ended 31 December 2013 and the six months ended 30 June 2014 and relatively not stable after launching new products, we consider the P/S ratio of the Group is also not representative and hence, should not be evaluated against the P/S ratio of the Comparable Companies.

P/B ratio of the Company implied by the price of HK$0.168 per Disinterested Share (the "Implied P/B") is approximately 6.16 times. In particular, based on the price of HK$0.168 per Disinterested Share and the total number of issued Shares of 2,465,100,000 immediately before the Completion, the Company is valued at approximately HK$414.14 million. The book value was based on the unaudited equity attributable to owners of the Company as at 30 June 2014 of approximately HK$67.2 million. We did not take into account the effect of the Completion in calculating the Implied P/B is because the Offers were made as a consequence of the Completion and the Offer Price (the same for the Share Subscription, the Share Purchase and the Share Offer) was determined before and without taking into account the effect of the Completion. On the last trading day immediately prior to the date of the Subscription Agreement and as at the Latest Practicable Date, the market capitalisation of the Company is approximately HK$443.7 million and HK$567.0 million respectively.

In assessing the fairness and reasonableness of the Offer Price, we have attempted to compare the Implied P/B ratio with the P/B ratios of the comparable companies listed on the Stock Exchange and engaged in the same or similar business with the Company. However, based on such criteria, we have not identified any comparable companies with the same or similar business as the Company, which is very unique in the market. However, we consider the business model of research, design, development and sale of DSP-based consumer electronic devices/platforms is similar to that of sale, design and manufacture of semiconductor parts. In general, both of the businesses involve design and production of electronic products. Therefore, we are of the view that companies engaged in sale, design and manufacture of semiconductor parts would be comparable to the Group.

The Group recorded mainly its revenue from research, design, development and sale of DSP-based consumer electronic devices/platforms for the three years ended 31 December 2013 and the six months ended 30 June 2014. In the view that revenue from research, design, development and sale of DSP-based consumer electronic devices/platforms was the primary income source of the Group in the last three financial years of the Group, as well as that the Offeror intends to continue the Company's current business operations, we have identified comparable companies which (i) are listed on the main board of the Stock Exchange; (ii) are principally engaged in and generated majority, which accounted for over 50%, of revenue from the sale, design and manufacture of semiconductor parts (comparable to the research, design, development and sale of DSP-based consumer electronic devices/platforms business of the Group as mentioned above) in their respective latest financial year; and (iii) have market capitalisation ranged from HK$200 million to HK$800 million as at the Latest Practicable Date, having taken into account the market capitalisation of the Company as at the last trading day immediately prior to the date of the Subscription Agreement and as at the Latest Practicable Date respectively (the "Comparable Companies"). The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. The following table sets out the details of the Comparable Companies:

Table 1 – Comparable Companies Analysis on P/B ratio

Company name	**Ticker**	**P/B (x)** *(Note 1)*	**Market capitalisation as at the Latest Practicable Date** *(HK$ million)* *(Note 2)*
QPL International	243 HK	3.88	292
Pacmos Tech Holdings	1010 HK	2.10	370
	Maximum	3.88	370
	Minimum	2.10	292
	Average	2.99	N/A
The Implied P/B ratio *(Note 3)*	1822 HK	6.16	414

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. Unless as otherwise specified, the P/B ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the equity attributable to owners of the respective Comparable Companies as extracted from their respective latest published annual or interim reports.

2. Market capitalisation of the Comparable Companies are calculated based on their respective closing prices as at the Latest Practicable Date and the total number of issued shares as extracted from their respective latest published annual or interim reports.

3. The Implied P/B ratio is calculated based on the price of HK$0.168 per Disinterested Share and the total number of issued Shares of 2,465,100,000 immediately before the Completion divided by the unaudited net asset value of the Company as at 30 June 2014 of approximately HK$67.2 million.

As illustrated in the table above, the P/B ratios of the Comparable Companies ranged from 2.10 times to 3.88 times (the "P/B Range") with an average of 2.99 times (the "Average P/B"). The Implied P/B ratio of 6.16 times is exceeding the high-end of the P/B Range and higher than the Average P/B. In this regard, we consider the Offer Price is fair and reasonable to the Independent Shareholders.

RECOMMENDATION

For the Share Offer

Having considered the principal factors and reasons discussed above, and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

(i) the Group's revenue were decreasing and the Group has been loss-making for the three financial years ended 31 December 2013 and the six months ended 30 June 2014 and there was no significant improvement regarding the prospect of the Group in the three financial years ended 31 December 2013 and the six months ended 30 June 2014;

(ii) the price of HK$0.168 for each Disinterested Share represents a premium in a range of approximately 16.7% to 52.7% over the average closing price for 5, 10, 30 and 90 consecutive trading days immediately prior to the date of the Subscription Agreement;

(iii) the price of HK$0.168 for each Disinterested Share represents a premium of approximately 1,300.0% over the audited net asset value per Share of approximately HK$0.012 as at 31 December 2013 and a premium of approximately 522.2% over the unaudited net asset value per Share of approximately HK$0.027 as at 30 June 2014;

(iv) the Implied P/B ratio exceeds the high-end of P/B Range and higher than the Average P/B;

(v) given low liquidity and trading volume of the Shares, the Offers represent an alternative exit for the Independent Shareholders to realise their investment in the Company rather than exerting a downward pressure on the market price of the Shares while disposing of a significant shareholding of the Company in the market within a short timeframe; and

(vi) the uncertainty as to whether the surge in price and trading volume of the Shares in the Post-Announcement Period may be sustainable, we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

Nevertheless, the Independent Shareholders who would like to realise part or all of their investments in the Company are reminded to closely monitor the market prices of the Shares during the period of the Share Offer. Should the market price of the Shares exceeds the Offer Price during the period of the Share Offer, and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Share Offer, the Independent Shareholders should seek to sell their Shares in the market instead of accepting the Share Offer.

For the Option Offer

Given that the sum payable for each Option is calculated based on the “see-through” price of the Options held as if the relevant Options were exercised in full, our analysis and our recommendation set out in the above section for the Share Offer also apply to the Option Offer. Therefore, in line with our recommendation for the Share Offer, we are of the view that the terms of the Option Offer are fair and reasonable so far as the holder of the Options are concerned. Accordingly, we advise the Independent Board Committee to recommend to the holder of the Options to accept the Option Offer.

The holder of the Options who may wish to take this opportunity to realise part or all of the Options should have regard to the market price of the Shares before the close of the Option Offer and should consider exercising the Options and selling the Shares in the open market rather than accepting the Option Offer if the net proceeds from the sale of Shares in the open market after deducting all related costs (including the exercise price of the Options) would be greater than the net amount to be received under the Option Offer. The holder of the Options should exercise caution in doing so and monitor the market closely.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Lenny Li
Director and Co-Head of Corporate Finance

1. SUMMARY OF FINANCIAL RESULTS

Financial information of the Group for the three years ended 31 December 2013 and the six months ended 30 June 2014, including the notes thereto, have been published in the annual reports for the years ended 31 December 2011 (pages 40 to 111), 31 December 2012 (pages 36 to 110) and 31 December 2013 (pages 32 to 109) and the unaudited interim results announcement for the six months ended 30 June 2014 of the Company, respectively, which are incorporated by reference into this document.

There were no extraordinary items or items which were exceptional because of its size, nature or incidence recorded on the consolidated financial statement of the Group during each of the three years ended 31 December 2013 and the six months ended 30 June 2014.

The auditors of the Company, Ernst & Young, Certified Public Accountants, did not issue any qualified opinions on the financial statements of the Group for each of the three years ended 31 December 2013.

Please see below hyperlinks to the 2011, 2012 and 2013 annual reports and the unaudited interim results announcement for the six months ended 30 June 2014 of the Company:

2011 annual report

- http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0427/LTN20120427866.pdf

2012 annual report

- http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0429/LTN20130429743.pdf

2013 annual report

- http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0424/LTN201404241318.pdf

2014 unaudited interim results announcement

- http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0811/LTN20140811723.pdf

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2011, 2012 and 2013 and the unaudited financial results of the Group for the six months ended 30 June 2014 as extracted from the published financial statements/ interim results announcement of the Company for the relevant years/period.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June 2014	For the year ended 31 December 2013	2012	2011
	HK$ (unaudited)	*HK$*	*HK$*	*HK$*
Revenue	17,166,563	200,022,317	340,869,541	533,406,703
Loss before income tax	(10,618,007)	(65,295,354)	(98,010,753)	(25,385,965)
Income tax credit	–	64,217	1,364,311	3,397,094
Loss for the year attributable to:				
Owners of the parent	(10,618,007)	(65,231,137)	(96,646,442)	(21,988,871)
Total comprehensive loss attributable to:				
Owners of the parent	(10,847,249)	(64,995,633)	(96,324,922)	(21,301,241)
Dividends	–	–	–	–
Loss per share				
Basic and diluted *(HK cents)*	(0.47)	(4.8)	(10.5)	(3.5)

2. AUDITED FINANCIAL INFORMATION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The following is the audited financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Notes	*HK$*	*HK$*
REVENUE	*5*	200,022,317	340,869,541
Cost of sales		(179,396,792)	(315,323,262)
Gross profit		20,625,525	25,546,279
Other income	*5*	1,067,008	1,358,878
Research and development costs	*7*	(5,125,959)	(23,678,720)
Selling and distribution expenses		(12,729,657)	(16,188,543)
General and administrative expenses		(19,385,288)	(39,304,434)
Other expenses, net		(42,893,891)	(37,187,744)
Finance costs	*6*	(6,853,092)	(8,556,469)
LOSS BEFORE TAX	*7*	(65,295,354)	(98,010,753)
Income tax credit	*10*	64,217	1,364,311
LOSS FOR THE YEAR		(65,231,137)	(96,646,442)
Attributable to:			
Owners of the parent	*11*	(65,231,137)	(96,646,442)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*	*HK cents*	*HK cents* (Restated)
Basic and diluted		(4.8)	(10.5)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Notes	2013 HK$	2012 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	3,835,136	7,507,826
Deferred development costs	*14*	18,123,387	34,140,404
Long term deposits	*18*	172,228	446,806
Deferred tax assets	*24*	2,406,665	2,406,665
Total non-current assets		24,537,416	44,501,701
CURRENT ASSETS			
Inventories	*16*	4,188,240	26,615,330
Trade receivables	*17*	85,489,602	78,928,766
Prepayments, deposits and other receivables	*18*	8,599,496	41,957,100
Tax recoverable		–	1,390,035
Pledged deposits	*19*	6,018,550	16,195,487
Cash and cash equivalents	*19*	26,139,149	43,155,687
Total current assets		130,435,037	208,242,405
CURRENT LIABILITIES			
Trade payables	*20*	85,274,587	84,403,598
Other payables and accruals	*21*	10,846,371	20,617,930
Interest-bearing bank and other borrowings	*22*	31,330,795	92,056,996
Tax payable		868,537	852,174
Provision	*23*	672,700	977,031
Total current liabilities		128,992,990	198,907,729
NET CURRENT ASSETS		1,442,047	9,334,676
TOTAL ASSETS LESS CURRENT LIABILITIES		25,979,463	53,836,377

	Notes	2013 HK$	2012 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES		25,979,463	53,836,377
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*22*	12,300,000	44,979,236
Deferred tax liabilities	*24*	–	63,607
Total non-current liabilities		12,300,000	45,042,843
Net assets		13,679,463	8,793,534
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*25*	112,050,000	62,250,000
Reserves	*27(a)*	(98,370,537)	(53,456,466)
Total equity		13,679,463	8,793,534

STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2013

	Notes	2013 HK$	2012 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	15	22,642,740	23,102,758
CURRENT ASSETS			
Prepayments	18	13,949	375
Due from subsidiaries	15	11,527,373	–
Cash and cash equivalents	19	24,272,684	30,315,505
Total current assets		35,814,006	30,315,880
CURRENT LIABILITIES			
Other payables and accruals	21	979,824	913,946
Other borrowing	22	31,330,795	2,785,985
Total current liabilities		32,310,619	3,699,931
NET CURRENT ASSETS		3,503,387	26,615,949
TOTAL ASSETS LESS CURRENT LIABILITIES		26,146,127	49,718,707
NON-CURRENT LIABILITY			
Other borrowing	22	12,300,000	40,857,030
Net assets		13,846,127	8,861,677
EQUITY			
Issued capital	25	112,050,000	62,250,000
Reserves	27(b)	(98,203,873)	(53,388,323)
Total equity		13,846,127	8,861,677

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 HK$	2012 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(65,295,354)	(98,010,753)
Adjustments for:			
Finance costs	6	6,853,092	8,556,469
Interest income	5	(252,605)	(144,400)
Depreciation	7	3,165,029	3,807,322
Amortisation of deferred development costs	7	19,096,012	17,359,145
Impairment of items of property, plant and equipment	7	149,250	420,780
Impairment/write-off of deferred development costs	7	3,081,449	8,262,712
Loss on disposal of items of property, plant and equipment, net	7	116,344	102,137
Write-off of items of property, plant and equipment	7	–	546,406
Impairment of trade receivables	7	18,495,805	9,750,614
Impairment of other receivables	7	20,184,795	7,509,945
Write-off of inventories	7	–	10,820,051
Write-down of inventories to net realisable value, net	7	13,358,278	5,223,259
Gain on transfer arising from factoring of trade receivables	7	(29,201)	(224,901)
Loss on early repayment of an other borrowing	7	895,449	–
Reversal of equity-settled share option expense, net	26	(460,020)	(547,174)
		19,358,323	(26,568,388)
Decrease in inventories		9,068,812	3,857,841
Decrease/(increase) in trade receivables		(25,034,123)	65,090,417
Decrease in prepayments, deposits and other receivables		4,850,882	13,980,832
Increase/(decrease) in trade payables		870,908	(83,492,840)
Decrease in other payables and accruals		(1,207,188)	(1,458,371)
Decrease in provision		(304,331)	(657,506)
Cash generated from/(used in) operations		7,603,283	(29,248,015)
Hong Kong profits tax refunded/(paid)		1,390,035	(347,509)
Overseas tax paid		–	(11,079)
Net cash flows from/(used in) operating activities		8,993,318	(29,606,603)

	Notes	2013 HK$	2012 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits for purchase of items of property, plant and equipment		(10,500)	(220,867)
Purchases of items of property, plant and equipment		(57,740)	(2,730,023)
Proceeds from disposal of items of property, plant and equipment		559,999	694,964
Additions to deferred development costs		(6,030,630)	(24,149,726)
Decrease in pledged deposits		10,176,937	765,416
Bank interest received		252,605	144,400
Net cash flows from/(used in) investing activities		4,890,671	(25,495,836)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*25*	72,894,750	–
Share issue expenses	*25*	(2,553,168)	–
New other borrowings		12,000,000	53,000,000
Repayment of other borrowing		(16,000,000)	(3,000,000)
New bank loans		157,733,878	381,246,986
Repayment of bank loans		(239,564,372)	(376,992,537)
Interest and bank charges paid		(3,857,957)	(7,930,505)
Net cash flows from/(used in) financing activities		(19,346,869)	46,323,944
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,462,880)	(8,778,495)
Cash and cash equivalents at beginning of year		31,592,964	40,365,986
Effect of foreign exchange rate changes, net		9,065	5,473
CASH AND CASH EQUIVALENTS AT END OF YEAR		26,139,149	31,592,964

	Notes	2013 HK$	2012 HK$
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*19*	12,439,149	33,144,937
Non-pledged time deposits with original maturity of less than three months when acquired		13,700,000	10,010,750
Cash and cash equivalents as stated in the statement of financial position		26,139,149	43,155,687
Bank overdrafts	*22*	–	(11,562,723)
Cash and cash equivalents as stated in the statement of cash flows		26,139,149	31,592,964

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	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 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 and at 1 January 2013		62,250,000	43,490,307	43,823,276	7,048,243	3,093,539	2,549,544	(153,461,375)	8,793,534
Loss for the year		–	–	–	–	–	–	(65,231,137)	(65,231,137)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	235,504	–	235,504
Total comprehensive income/(loss) for the year		–	–	–	–	–	235,504	(65,231,137)	(64,995,633)
Issue of shares	*25*	49,800,000	23,094,750	–	–	–	–	–	72,894,750
Share issue expenses	*25*	–	(2,553,168)	–	–	–	–	–	(2,553,168)
Equity-settled share option arrangements	*26*	–	–	–	–	(460,020)	–	–	(460,020)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	(773,990)	–	773,990	–
At 31 December 2013		112,050,000	64,031,889*	43,823,276*	7,048,243*	1,859,529*	2,785,048*	(217,918,522)*	13,679,463

* *These reserve accounts comprise the consolidated negative reserves of HK$98,370,537 (2012: HK$53,456,466) in the consolidated statement of financial position.*

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

2.1 Basis of preparation

The Group's consolidated financial statements report a net loss attributable to owners of the parent of approximately HK$65.2 million (2012: HK$96.6 million) for the year ended 31 December 2013 and consolidated net current assets of approximately HK$1.4 million (2012: HK$9.3 million) and net assets of approximately HK$13.7 million (2012: HK$8.8 million) as at 31 December 2013. The Group's net loss for the year included one-off non-cash provisions/charges in excess of HK$55 million. The Group had total cash and bank balances of approximately HK$32.2 million (including pledged deposits of approximately HK$6.0 million) as at 31 December 2013 and had positive net cash flows from operating activities of approximately HK$9.0 million for the year ended 31 December 2013. The Group had no outstanding bank borrowings as at 31 December 2013.

In preparing these financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and cash positive operations in the foreseeable future. Active cost-saving and value-adding measures to streamline/enhance the Group's existing operations and to focus on improving the financial resources of the Group have been implemented by the Group to substantially reduce its operating expenses and cash outflows in the current and coming years and to enable the Group to revitalise itself to take advantage of any growth opportunities in the near future (the "Cost-saving/Value-adding Measures").

In addition, subsequent to the end of the reporting period, in January 2014, the Company completed an open offer to issue 1,344,600,000 ordinary shares of the Company at a subscription price of HK$0.05 per offer share (the "Open Offer II"). The Company received net proceeds of approximately HK$64.9 million from the Open Offer II and part of which amounted to approximately HK$34.0 million has been used to repay short term other borrowing of the Group.

The directors of the Company are of the opinion that, in light of the measures/arrangements implemented to date, including, inter alia, the Cost-saving/Value-adding Measures and the Open Offer II, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future and, therefore, be able to continue realising its assets and discharging its liabilities in the normal course of business. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 ("HKICPA"), 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 (collectively referred to as the "Group") for the year ended 31 December 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in accounting policies and disclosures

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

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

Other than as further explained below regarding the impact of HKFRS 13 and amendments to HKAS 1, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in note 33 to the financial statements.

(b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has reflected the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these 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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]

[1] *Effective for annual periods beginning on or after 1 January 2014*
[2] *Effective for annual periods beginning on or after 1 July 2014*
[3] *Effective for annual periods beginning on or after 1 January 2016*
[4] *No mandatory effective date yet determined but is available for adoption*

Apart from the above, the HKICPA has also issued *Annual Improvements to HKFRSs 2010 – 2012 Cycle* and *Annual Improvements to HKFRSs 2011 – 2013 Cycle* which set out a collection of amendments to HKFRSs in response to the International Accounting Standards Board's annual improvements process. Except for the amendment to HKFRS 1, in which no effective date has been specified and, accordingly, is effective upon its issuance in January 2014, these amendments are effective for annual periods beginning on or after 1 July 2014, although there are separate transitional provisions for each standard.

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 its results of operations and financial position.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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 of disposal, 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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%

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 statement of profit or loss 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 statement of profit or loss 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 are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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 statement of profit or loss.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. 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 statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group are classified, at initial recognition, as loans and borrowings.

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 statement of profit or loss 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 statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 statement of profit or loss.

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.

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 statement of profit or loss.

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.

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, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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.

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 statement of profit or loss 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 statement of profit or loss 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) rental income, on a time proportion basis over the lease terms; and

(d) 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.

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 cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 statement of profit or loss 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.

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 statement of profit or loss 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 statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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 statement of profit or loss 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 statement of profit or loss on the straight-line basis over the lease terms.

Foreign currencies

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 statement of profit or loss. 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 statements of profit or loss 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 a foreign operation, the component of other comprehensive income relating to that foreign operation is recognised in the statement of profit or loss.

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 Hong Kong dollars at the exchange rates ruling 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.

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 entity operates. 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.

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/tax laws. The Group carefully evaluates tax implications of transactions/arrangements and tax provisions are set up accordingly. The tax treatment of such transactions/arrangements is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Adoption of the going concern basis

In assessing whether the going concern basis is appropriate in the preparation of these financial statements, management, including the directors of the Company, takes into account all available information about the foreseeable future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to the sufficiency of the Group's financial resources to satisfy its working capital and other financing requirements for the foreseeable future, including, inter alia, the effectiveness of the Cost-saving/Value-adding Measures as detailed in note 2.1 to the financial statements, the Group's current and expected future financial performance and operating cash flows, potential sources of new funds, and other measures/arrangements before they can satisfy themselves that the going concern basis is appropriate.

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, inter alia, historical loss experience for assets with similar credit risk characteristics and/or other relevant facts and circumstances.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its debtors to make the required payments or if the preserve value of estimated future cash flows (excluding future credit losses that have not yet been incurred) is less than the financial assets carrying amount. 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 and/or other relevant facts and circumstances. 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/assumptions/estimates of making the allowance.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets with finite 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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, changes in technological, market, economic and business conditions 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. Further details are contained in note 24 to the financial statements.

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 development costs to be capitalised requires management to make significant assumptions and estimates regarding the expected future economic benefits of the assets 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 primarily on the research, design, development and sale of DSP-based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the 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 2013 and 2012, and certain non-current asset information as at 31 December 2013 and 31 December 2012, 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 2013						
Revenue from external customers	97,314,968	44,880,321	16,670,866	15,952,279	25,203,883	200,022,317
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
As at 31 December 2013						
Non-current assets (excluding deferred tax assets)	–	–	8,172,125	13,958,626	–	22,130,751
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	8,172,125	13,796,898	–	21,969,023
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

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

Revenue of HK$148,458,887 was derived from transactions with one customer, which individually amounted to 10 per cent or more of the Group's total revenue for the current year. Revenues of HK$243,250,131 and HK$37,086,095 were derived from transactions with two customers, which individually amounted to 10 per cent or more of the Group's total revenue for the prior year.

5. Revenue and other income

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

An analysis of revenue and other income is as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Revenue		
Sale of goods	193,513,754	337,150,028
Rendering of services	6,508,563	3,560,973
Royalty income	–	158,540
	200,022,317	340,869,541
Other income		
Bank interest income	252,605	144,400
Government subsidies	3,786	578,447
Gross rental income from a sublease arrangement	577,826	435,774
Others	232,791	200,257
	1,067,008	1,358,878

6. Finance costs

An analysis of finance costs is as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Interest on bank loans, overdrafts and other loan wholly repayable within five years*	5,260,127	4,799,555
Bank charges	653,590	1,284,874
Other finance costs on trade receivables factored:		
Bank interest	636,643	1,720,383
Bank charges	302,732	751,657
	6,853,092	8,556,469

* *Reflecting a waiver of interest on an other borrowing of HK$499,726 (2012: Nil) for the year.*

7. Loss before tax

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

		Group	
		2013	**2012**
	Notes	*HK$*	*HK$*
Cost of inventories sold and services rendered		179,396,792	315,323,262
Depreciation	*13*	3,165,029	3,807,322
Research and development costs:			
Deferred expenditure amortised^	*14*	19,096,012	17,359,145
Current year expenditure^^		5,125,959	23,678,720
		24,221,971	41,037,865
Minimum lease payments under operating leases:			
Land and buildings		1,799,654	5,919,997
Office equipment		110,043	131,379
Motor vehicles		120,000	193,536
		2,029,697	6,244,912
Auditors' remuneration for audit services		780,000	1,380,000
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages, salaries, allowances, bonuses and benefits in kind		16,080,299	47,403,346
Termination benefits		3,714,468	5,880,180
Reversal of equity-settled share option expense, net		(460,020)	(147,309)
Pension scheme contributions (defined contribution schemes)##		1,207,763	2,780,672

		Group	
		2013	**2012**
	Notes	*HK$*	*HK$*
		20,542,510	55,916,889
Less: Amount capitalised		(6,030,630)	(24,149,726)
		14,511,880	31,767,163
Foreign exchange differences, net		(198,430)	346,066
Government subsidies#		(3,786)	(578,447)
Impairment of items of property, plant and equipment*	*13*	149,250	420,780
Impairment/write-off of deferred development costs*	*14*	3,081,449	8,262,712
Impairment of trade receivables*	*17*	18,495,805	9,750,614
Impairment of other receivables*	*18*	20,184,795	7,509,945
Loss on early repayment of an other borrowing*		895,449	–
Write-off of inventories*		–	10,820,051
Write-down of inventories to net realisable value, net^		13,358,278	5,223,259
Gain on transfer arising from factoring of trade receivables*		(29,201)	(224,901)
Product warranty provision	*23*	794,730	1,850,047
Loss on disposal of items of property, plant and equipment, net*		116,344	102,137
Write-off of items of property, plant and equipment*		–	546,406

* *The impairment of items of property, plant and equipment, the impairment/write-off of deferred development costs, the impairment of trade receivables, the impairment of other receivables, the write-off of inventories, the gain on transfer arising from factoring of trade receivables, the loss on early repayment of an other borrowing, 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 statement of profit or loss.*

^ *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 statement of profit or loss and in "Cost of inventories sold and services rendered" above.*

^^ *The current year expenditure for research and development activities charged directly to profit or loss is included in "Research and development costs" on the face of the consolidated statement of profit or loss.*

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 2013, the Group had no material forfeited contributions available to reduce its contributions to its pension schemes in future years (2012: 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	
	2013	**2012**
	HK$	*HK$*
Fees	323,684	1,569,169
Other emoluments:		
Salaries, allowances and benefits in kind	2,236,517	4,573,904
Equity-settled share option expense, net/ (reversal of equity-settled share option expense, net)	(122,512)	51,613
Pension scheme contributions (defined contribution scheme)	15,000	27,500
	2,129,005	4,653,017
	2,452,689	6,222,186

In prior years, two directors, of which one of them was resigned from his position during the year and the other director (the "New Director") was appointed during the year, were granted share options before their appointment as the directors of the Company, in respect of their 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 statement of profit or loss over the vesting period, was determined as at the date of grant and the applicable amounts included in the consolidated financial statements for the current and prior years in respect of the period in which they are the directors of the Company are included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2013	**2012**
	HK$	*HK$*
Prof. Chin, Tai Hong Roland (resigned on 16 May 2013)	18,817	224,167
Dr. Lam Lee, Kiu Yue Alice Piera (resigned on 25 March 2013)	8,333	224,167
Mr. Ng, Wai Hung (appointed on 7 January 2013)	49,194	–
Mr. Shu, Wa Tung Laurence (resigned on 7 May 2013)	17,742	224,167
Mr. William Keith Jacobsen (appointed on 7 January 2013)	49,194	–
Ms. Zhou, Jing (appointed on 8 May 2013)	32,392	–
	175,672	672,501

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Reversal of equity-settled share option expense, net	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
2013					
Executive directors:					
Dr. Lau, Jack (resigned on 29 June 2013)	24,722	1,542,667	–	7,500	1,574,889
Mr. Lee, Rabi (appointed on 19 July 2013)*	–	307,500	–	6,250	313,750
Ms. Liu, Yee Nee (appointed on 15 May 2013)	31,453	–	–	–	31,453
Mr. Mung, Wai Ming (appointed on 8 May 2013)	32,392	–	–	–	32,392
Mr. Tao, Hong Ming (resigned on 1 February 2013)	4,167	386,350	(122,512)	1,250	269,255
	92,734	2,236,517	(122,512)	15,000	2,221,739
Non-executive directors:					
Prof. Cheng, Roger Shu Kwan (resigned on 19 July 2013)	27,639	–	–	–	27,639
Prof. Tsui, Chi Ying (resigned on 19 July 2013)	27,639	–	–	–	27,639
	55,278	–	–	–	55,278
	148,012	2,236,517	(122,512)	15,000	2,277,017

* *Only includes the remuneration of Mr. Lee, Rabi for the period subsequent to his appointment as a director of the Company.*

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

9. Five highest paid employees

The five highest paid employees during the year included two (2012: two) directors, of which one of them is the New Director, and the other director was resigned from his position during the year, 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 (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Salaries, allowances, bonuses and benefits in kind	4,077,594	2,385,627
Termination benefits	159,150	295,200
Reversal of equity-settled share option expense, net	(25,060)	(99,259)
Pension scheme contributions (defined contribution scheme)	66,250	37,500
	4,277,934	2,619,068

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

	Number of employees	
	2013	**2012**
Nil to HK$1,000,000	3	2
HK$1,000,001 to HK$1,500,000	–	1
	3	3

In prior years, share options were granted to three (2012: 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 statement of profit or loss 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 for the current and prior years as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2013	**2012**
	HK$	*HK$*
Group:		
Current – Elsewhere		
– Charge for the year	–	11,079
Deferred *(note 24)*	(64,217)	(1,375,390)
Total tax credit for the year	(64,217)	(1,364,311)

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	
	2013	**2012**
	HK$	*HK$*
Loss before tax	(65,295,354)	(98,010,753)
Hong Kong statutory tax rate	16.5%	16.5%
Tax credit at the Hong Kong statutory tax rate	(10,773,733)	(16,171,774)
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	91,062	189,973
Income not subject to tax	(159,294)	(42,383)
Expenses not deductible for tax	4,279,756	803,868
Tax losses not recognised	6,457,869	13,729,208
Others	40,123	126,797
Tax credit at the Group's effective tax rate	(64,217)	(1,364,311)

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 2013 and 2012.

11. Loss attributable to owners of the parent

The consolidated loss attributable to owners of the parent for the year ended 31 December 2013 includes a loss of HK$64,897,112 (2012: HK$118,651,655) 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 calculations of basic and diluted loss per share are based on:

	2013	**2012**
	HK$	*HK$*
Loss		
Loss for the year attributable to ordinary equity holders of the parent	(65,231,137)	(96,646,442)

	Number of shares	
	2013	**2012**
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year	1,368,342,571	923,466,937

The calculation of basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$65,231,137 (2012: HK$96,646,442) and the weighted average number of ordinary shares of 1,368,342,571 (2012: 923,466,937, as restated) in issue during the year. The basic loss per share amounts for the years ended 31 December 2013 and 2012 have been adjusted to reflect the bonus element in certain open offers and placing of shares of the Company during the respective reporting periods and/or subsequent to the end of the respective reporting periods.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the impact of the warrants and share options outstanding during the respective reporting periods 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 2013						
At 31 December 2012 and at 1 January 2013:						
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
At 1 January 2013, net of accumulated depreciation and impairment	4,416,447	251,189	1,657,379	567,885	614,926	7,507,826
Additions	30,540	–	–	210,250	–	240,790
Disposals	(442,518)	–	(10,203)	–	(223,622)	(676,343)
Impairment	–	–	–	(149,250)	–	(149,250)
Depreciation provided during the year	(1,666,679)	(104,547)	(783,238)	(448,590)	(161,975)	(3,165,029)
Exchange realignment	50,024	–	24,276	–	2,842	77,142
At 31 December 2013, net of accumulated depreciation and impairment	2,387,814	146,642	888,214	180,295	232,171	3,835,136
At 31 December 2013:						
Cost	10,624,625	2,061,291	2,525,245	1,483,749	348,257	17,043,167
Accumulated depreciation and impairment	(8,236,811)	(1,914,649)	(1,637,031)	(1,303,454)	(116,086)	(13,208,031)
Net carrying amount	2,387,814	146,642	888,214	180,295	232,171	3,835,136

	Furniture, fixtures and office equipment *HK$*	Machinery and equipment *HK$*	Leasehold improvements *HK$*	Toolings *HK$*	Motor vehicles *HK$*	Total *HK$*
31 December 2012						
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

During the year ended 31 December 2013, the directors of the Company assessed 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$149,250 (2012: 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 of disposal or value in use that could be recovered.

14. Deferred development costs

	Group	
	2013	**2012**
	HK$	*HK$*
Cost at 1 January, net of accumulated amortisation and impairment	34,140,404	35,427,233
Additions – internal development	6,030,630	24,149,726
Amortisation provided during the year	(19,096,012)	(17,359,145)
Impairment/write-off during the year	(3,081,449)	(8,262,712)
Exchange realignment	129,814	185,302
At 31 December	18,123,387	34,140,404
At 31 December:		
Cost	50,537,847	59,703,281
Accumulated amortisation and impairment	(32,414,460)	(25,562,877)
Net carrying amount	18,123,387	34,140,404

The impairment recognised during the years ended 31 December 2013 and 2012 mainly reflected the decrease in the recoverable amounts of certain electronic device development projects of the Group as assessed by the directors of the Company, with reference to, inter alia, the changes in technological, market and economic environment, and estimated sales orders of the relevant products, 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 of the Company, the related deferred development costs do not have any material fair value less costs of disposal or value in use that could be recovered.

15. Interests in subsidiaries

	Company	
	2013	**2012**
	HK$	*HK$*
Unlisted investments, at cost	10,144,507	10,144,507
Due from subsidiaries	198,544,487	127,810,055
Impairment	(174,518,881)	(114,851,804)
	34,170,113	23,102,758

The amounts due from subsidiaries included in the Company's non-current assets are unsecured, interest-free and are not repayable within twelve months from the end of the reporting period. The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand or have no fixed terms of repayment.

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

	Company	
	2013	**2012**
	HK$	*HK$*
At 1 January	114,851,804	–
Impairment losses recognised	59,667,077	114,851,804
At 31 December	174,518,881	114,851,804

A provision for impairment was recognised for certain individually impaired amounts due from subsidiaries with a total carrying amount before provision of HK$198,544,487 (2012: HK$127,810,055) because, in the opinion of the directors of the Company, the recoverable amounts thereof, based on their estimated future cash flows, reflecting changes in economic and business conditions and the Group's strategies, were lower than their carrying amounts.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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/platforms, including embedded firmware; provision of solutions/services for DSP – based consumer electronic devices/platforms; 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/platforms, including embedded firmware; provision of solutions/services for DSP – based consumer electronic devices/platforms; and trading of electronic components
IWC Digital Limited	Hong Kong	HK$2	–	100	Inactive
IPR Tech Limited	Hong Kong	HK$1	–	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 – based devices/platforms 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 2013	Group 2012
	HK$	*HK$*
Raw materials and components	3,372,779	18,000,121
Work in progress	–	636,637
Finished goods	815,461	7,978,572
	4,188,240	26,615,330

17. Trade receivables

	Group 2013	Group 2012
	HK$	*HK$*
Trade receivables	118,890,159	94,320,607
Impairment	(33,400,557)	(15,391,841)
	85,489,602	78,928,766

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, or could be longer under certain circumstances. 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 an individual balance of HK$7,616,643 as at 31 December 2013, which bears interest at 1.6% per month. As at 31 December 2012, trade receivables were non-interest-bearing except for two individual balances of HK$7,616,643 and HK$1,181,711, which bore interest at 1.6% per month and 14% per annum, respectively.

The Group generally does not hold any collateral or other credit enhancements over its trade receivable balances, except as detailed below.

As at 31 December 2012, a trade receivable of HK$7,616,643 and an other receivable of HK$20,058,594 of the Group were secured by an item of intellectual property of a customer of the Group. During the current year, the Group obtained the item of intellectual property by taking possession of the collateral it holds as security. However, the Group was aware of a civil suit filed by a third party in the United States of America against this customer during the current year due to infringement of certain patents. The United States International Trade Commission also imposed a limited exclusive order to this customer during the current year, which prohibited the entry of the infringing electronic devices and products of this customer with utilisation of such intellectual property in the United States of America. The directors of the Company consider minimal future economic benefits could be generated from this item of intellectual property to the Group and no value was ascribed to it as at 31 December 2013. The Group currently does not have any policies or detailed plans for disposing of such item or for using it in its operations. Accordingly, the Group recognised a full provision of HK$7,616,643 and HK$20,058,594 for the trade receivable and other receivable, respectively, of this customer during the current year.

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	
	2013	**2012**
	HK$	*HK$*
Within 30 days	3,910,733	16,656,806
31 to 60 days	20,635,405	11,704,386
61 to 90 days	21,436,571	3,762,419
Over 90 days	39,506,893	46,805,155
	85,489,602	78,928,766

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

	Group	
	2013	**2012**
	HK$	*HK$*
At 1 January	15,391,841	5,641,227
Impairment losses recognised *(note 7)*	18,495,805	9,750,614
Amount written off as uncollectible	(487,089)	–
At 31 December	33,400,557	15,391,841

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$33,400,557 (2012: HK$15,391,841) with a carrying amount before provision of HK$51,780,570 (2012: HK$19,221,481). The individually impaired trade receivables relate to debtors that are in financial difficulties and/or are in default in payments and none or only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Neither past due nor impaired	38,850,270	26,050,640
Less than 31 days past due	13,869,106	3,805,788
31 to 60 days past due	3,355,986	742,965
61 to 90 days past due	702,634	388,389
Over 90 days past due	10,331,593	44,111,344
	67,109,589	75,099,126

Trade receivables that were neither past due nor impaired relate to a sizeable number of customers for whom there was no recent history of significant 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/relationship with the Group and/or are major/strategic customers of the Group. Based on past experience/current assessment, the directors of the Company are of the opinion that no provision for impairment is necessary at this stage in respect of these balances as there has not been a significant change in credit quality or relationship with the debtors and the balances are still considered fully recoverable.

18. Prepayments, deposits and other receivables

	Group		Company	
	2013	**2012**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Prepayments	304,805	1,709,267	13,949	375
Deposits and other receivables	36,297,788	48,320,498	–	–
	36,602,593	50,029,765	13,949	375
Impairment	(27,830,869)	(7,625,859)	–	–
	8,771,724	42,403,906	13,949	375
Less: Portion classified as non-current assets	(172,228)	(446,806)	–	–
Current portion	8,599,496	41,957,100	13,949	375

Other receivables are non-interest-bearing, except for two individual balances of HK$20,058,594 (2012: HK$20,058,594) and HK$10,447,675 (2012: HK$10,601,167), which bear interest at 1.6% per month and 14% per annum, respectively.

The Group generally does not hold any collateral or other credit enhancements over its other receivables, except as detailed below.

An other receivable of HK$20,058,594 and a trade receivable of HK$7,616,643 as at 31 December 2012 of the Group were secured by an item of intellectual property of a customer of the Group. Further details are set out in note 17 to the financial statements.

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

	Group	
	2013	**2012**
	HK$	*HK$*
At 1 January	7,625,859	–
Impairment losses recognised *(note 7)*	20,184,795	7,509,945
Exchange realignment	20,215	115,914
At 31 December	27,830,869	7,625,859

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK$27,830,869 (2012: HK$7,625,859) with a carrying amount before provision of HK$30,506,269 (2012: HK$10,601,167). The individually impaired other receivables relate to debtors of the Group that are in default in payments and only a portion of the receivables is expected to be recovered.

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 significant default or are due from independent debtors that have a good relationship with the Group.

19. Cash and cash equivalents and pledged deposits

	Group		Company	
	2013	**2012**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	12,439,149	33,144,937	10,572,684	20,304,755
Time deposits	19,718,550	26,206,237	13,700,000	10,010,750
	32,157,699	59,351,174	24,272,684	30,315,505
Less: Pledged deposits for banking facilities	(5,241,218)	(15,416,361)	–	–
Pledged deposit for a licensing arrangement	(777,332)	(779,126)	–	–
Cash and cash equivalents	26,139,149	43,155,687	24,272,684	30,315,505

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$498,666 (2012: HK$472,548) and HK$3,923,920 (2012: HK$25,427,111), 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	
	2013	**2012**
	HK$	*HK$*
Within 30 days	27,732,890	60,086,449
31 to 60 days	15,703,220	4,455,626
Over 60 days	41,838,477	19,861,523
	85,274,587	84,403,598

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

21. Other payables and accruals

	Group		Company	
	2013	**2012**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Due to directors*	194,625	589,167	248,684	589,167
Other payables	9,001,422	15,793,253	509,020	102,659
Accruals	1,650,324	4,235,510	222,120	222,120
	10,846,371	20,617,930	979,824	913,946

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

	2013			2012		
	Contractual interest rate	Maturity	HK$	Contractual interest rate	Maturity	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
Portion of bank loans due for repayment within one year or on demand – secured	–	–	–	2.68% to 6.75%	2013	74,937,340
Other borrowing – unsecured	6%	2014	31,330,795	6%	2013	2,785,985
			31,330,795			92,056,996
Non-current						
Portion of bank loans due for repayment after one year – unsecured	–	–	–	5.25% to 5.75%	2014-2015	2,854,899
Portion of a bank loan due for repayment after one year – secured	–	–	–	6%	2014-2015	1,267,307
Other borrowing – unsecured	5%	2015	12,300,000	6%	2014-2017	40,857,030
			12,300,000			44,979,236
			43,630,795			137,036,232

Company

	2013			2012		
	Contractual interest rate	Maturity	HK$	Contractual interest rate	Maturity	HK$
Current						
Other borrowing – unsecured	6%	2014	31,330,795	6%	2013	2,785,985
Non-current						
Other borrowing – unsecured	5%	2015	12,300,000	6%	2014-2017	40,857,030
			43,630,795			43,643,015

	Group		Company	
	2013	2012	2013	2012
	HK$	*HK$*	*HK$*	*HK$*
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	–	89,271,011	–	–
In the second year	–	3,325,093	–	–
In the third to fifth years, inclusive	–	797,113	–	–
	–	93,393,217	–	–
Other borrowings repayable:				
Within one year *(note (a))*	31,330,795	2,785,985	31,330,795	2,785,985
In the second year *(note (b))*	12,300,000	40,857,030	12,300,000	40,857,030
	43,630,795	43,643,015	43,630,795	43,643,015
	43,630,795	137,036,232	43,630,795	43,643,015

Notes:

(a) An other borrowing of the Company and the Group with a carrying amount of HK$31,330,795 as at 31 December 2013 (2012: HK$43,643,015) 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 within one year as at 31 December 2013 (2012: a portion of the other borrowing due for repayment after one year was analysed into other borrowing repayable in the second year). As a result of the completion of an open offer (the "Open Offer I") in March 2013, this lender became a shareholder of the Company.

(b) Another other borrowing of the Company and the Group with a carrying amount of HK$12,300,000 as at 31 December 2013 (2012: Nil) was advanced by a related company of the Company, in which a significant beneficial shareholder of the Company has a beneficial interest in the related company. The other borrowing from the related company is unsecured, bears interest at 5% per annum and is repayable on 31 January 2015.

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**	
	2013	**2012**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	–	89,271,011	–	–
In the second year	–	3,325,093	–	–
In the third to fifth years, inclusive	–	797,113	–	–
	–	93,393,217	–	–
Other borrowings repayable:				
Within one year	2,730,113	2,785,985	2,730,113	2,785,985
In the second year	13,925,082	2,538,188	13,925,082	2,538,188
In the third to fifth years, inclusive	26,975,600	38,318,842	26,975,600	38,318,842
	43,630,795	43,643,015	43,630,795	43,643,015
	43,630,795	137,036,232	43,630,795	43,643,015

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 should remain unchanged and provided always that the banking facilities should 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 repaid the bank borrowings to the Bank during the current year and had no outstanding bank borrowings from the Bank as at 31 December 2013.

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 repaid the bank borrowings to the Other Bank during the current year and had no outstanding bank borrowings from the Other Bank as at 31 December 2013.

Certain of the Group's banking facilities are secured by the pledge of certain of the Group's time deposits amounting to HK$6,018,550 as at 31 December 2013. Certain of the Group's interest-bearing bank borrowings and banking facilities were secured by the pledge of certain of the Group's time deposits amounting to HK$16,195,487 as at 31 December 2012.

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

All interest-bearing other borrowings of the Group were denominated in Hong Kong dollars as at 31 December 2013. Except for certain interest-bearing bank borrowings amounting to HK$68,084,785 as at 31 December 2012, which were denominated in United States dollars, all the interest-bearing bank and other borrowings of the Group were denominated in Hong Kong dollars as at 31 December 2012.

23. Provision

Group

	Product warranties
	HK$
At 1 January 2013	977,031
Additional provision *(note 7)*	794,730
Net amounts utilised during the year	(1,099,061)
At 31 December 2013	672,700

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 2012	323,979	5,705,741	6,029,720
Deferred tax credited to the statement of profit or loss during the year*	(122,034)	(254,451)	(376,485)
Exchange realignment	–	59,155	59,155
Gross deferred tax liabilities at 31 December 2012 and at 1 January 2013	201,945	5,510,445	5,712,390
Deferred tax credited to the statement of profit or loss during the year*	(124,095)	(2,613,523)	(2,737,618)
Exchange realignment	–	11,780	11,780
Gross deferred tax liabilities at 31 December 2013	77,850	2,908,702	2,986,552

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance	Losses available for offsetting against future taxable profits	Warranty provision	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2012	78,738	6,690,420	269,699	7,038,857
Deferred tax credited/(charged) to the statement of profit or loss 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 and at 1 January 2013	–	7,894,238	161,210	8,055,448
Deferred tax charged to the statement of profit or loss during the year*	–	(2,623,187)	(50,214)	(2,673,401)
Exchange realignment	–	11,170	–	11,170
Gross deferred tax assets at 31 December 2013	–	5,282,221	110,996	5,393,217

* *Net deferred tax credited to the statement of profit or loss during the year amounted to HK$64,217 (2012: HK$1,375,390) (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	
	2013	**2012**
	HK$	*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)

The Group has tax losses arising in Hong Kong of approximately HK$144,321,000 (2012: HK$123,314,000), subject to the agreement by the Hong Kong Inland Revenue Department, 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$10,335,000 (2012: HK$7,240,000), subject to the approval of the relevant PRC tax authority, that will expire in one to five years for offsetting against future taxable profits arising in Mainland China of the company in which the losses arose.

Deferred tax assets have been recognised 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 based on management's forecasted future taxable profits, which are based on (i) the availability of taxable temporary differences relating to the same taxation authority and the same taxable entity; (ii) whether the unused tax losses resulted from identifiable causes which are unlikely to recur; and (iii) the likely timing and level of future taxable profits together with future tax planning strategies. Based on the foregoing and in light of the Cost-saving/Value-adding Measures that have been implemented by the Group as further detailed in note 2.1 of the financial statements, the directors of the Company consider that the future taxable profits of the relevant taxable entities will be improved and it is probable that sufficient taxable profits will be available against which the carryforward of unused tax losses in which deferred tax assets had been recognised at the end of the reporting period can be utilised.

Deferred tax assets have not been recognised in respect of tax losses of approximately HK$122,147,000 (2012: HK$82,522,000) as, in the opinion of the directors of the Company, it is currently not considered probable that taxable profits will be available against which such tax losses can be utilised.

25. Share capital

Shares

	2013	**2012**
	HK$	*HK$*
Authorised:		
2,000,000,000 (2012: 2,000,000,000) ordinary shares of HK$0.1 each	200,000,000	200,000,000
Issued and fully paid:		
1,120,500,000 (2012: 622,500,000) ordinary shares of HK$0.1 each	112,050,000	62,250,000

During the year, the movements in share capital were as follows:

(a) On 27 February 2013, the Company issued a prospectus, pursuant to which, the Company proposed the Open Offer I to issue not less than 311,250,000 ordinary shares of the Company to its existing shareholders on the basis of one offer share of the Company for every two shares at a subscription price of HK$0.1286 per offer share. As further detailed in an announcement of the Company dated 19 March 2013, the Open Offer I became unconditional and a total of 311,250,000 offer shares were issued in March 2013.

(b) As further detailed in an announcement of the Company dated 22 August 2013 and an announcement for amendment of the Company dated 23 August 2013, the Company entered into a placing agreement with a placing agent, pursuant to which, the placing agent had conditionally agreed with the Company to endeavor on a best effort basis to place up to 186,750,000 placing shares of the Company at a placing price of HK$0.176 per placing share (the "Placing"). On 2 September 2013, the Company announced that the conditions of the Placing had been fulfilled and the completion of the Placing took place on the same day. An aggregate of 186,750,000 placing shares of the Company were successfully placed pursuant to the terms and conditions of the placing agreement.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital	Share premium account	Total
		HK$	*HK$*	*HK$*
At 1 January 2012, 31 December 2012 and 1 January 2013	622,500,000	62,250,000	43,490,307	105,740,307
Issue of new shares in connection with the Open Offer I	311,250,000	31,125,000	8,901,750	40,026,750
Issue of new shares in connection with the Placing	186,750,000	18,675,000	14,193,000	32,868,000
	498,000,000	49,800,000	23,094,750	72,894,750
Share issue expenses	–	–	(2,553,168)	(2,553,168)
At 31 December 2013	1,120,500,000	112,050,000	64,031,889	176,081,889

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 an original subscription price of HK$0.27 per share, subject to adjustment, at any time during the period from 31 October 2012 to 30 October 2017.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I and the Placing of the Company in March 2013 and September 2013, respectively, the subscription price of the outstanding warrants was adjusted to HK$0.23 per share pursuant to the terms of the instrument relating to the warrants. The exercise in full of such warrants would, under the capital structure of the Company as at 31 December 2013, result in the issue of 73,076,086 additional ordinary shares of the Company.

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 as further detailed in note 35 to the financial statements, the subscription price of the outstanding warrants was further adjusted to HK$0.14 per share pursuant to the terms of the instrument relating to 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 Company; 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.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I in March 2013, the exercise price of the outstanding share options of the Company and the number of shares that can be subscribed for upon the exercise of the outstanding share options were adjusted (the "Adjustment") 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.

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

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

	2013		2012	
	Weighted average exercise price *HK$ per share*	**Number of options**	**Weighted average exercise price** *HK$ per share*	**Number of options**
At 1 January	0.7	5,250,000	0.677	15,000,000
Forfeited during the period from 1 January 2013 to 20 March 2013	0.7	(750,000)	–	–
Adjustment		377,550	–	–
Forfeited during the period from 21 March 2013 to 31 December 2013	0.646	(1,398,231)	0.7	(5,300,000)
Expired during the year	0.646	(1,625,850)	0.621	(4,450,000)
At 31 December	0.646	1,853,469	0.7	5,250,000

The exercise price after the Adjustment and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2013

Number of options after the Adjustment	**Exercise price after the Adjustment*** *HK$ per share*	**Exercise period**
1,853,469	0.646	26 March 2013 to 25 March 2014

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		

* *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.*

At the end of the reporting period, the Company had 1,853,469 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 2013, result in the issue of 1,853,469 additional ordinary shares of the Company and additional share capital of HK$185,347 and share premium of HK$1,011,994 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 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 further adjusted from HK$0.646 to HK$0.429 per share, and from 1,853,469 to 2,788,729 shares of the Company, respectively, 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 no share options outstanding under the Scheme, as the remaining share options were lapsed on 25 March 2014.

(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 originally a maximum of 15,500,000 ordinary shares of the Company (the "Upfront Option"), representing approximately 2.5% of the then issued share capital of the Company, at an original 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 originally a maximum of 46,750,000 ordinary shares of the Company, representing approximately 7.5% of the then 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 shall 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.

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.

During the year ended 31 December 2013, as a result of the completion of the Open Offer I in March 2013, 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 (the "Option Adjustment") pursuant to the terms of the Option Agreement.

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

	2013		2012	
	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	0.38	62,250,000
Option Adjustment		5,222,775	–	–
At 31 December	0.351	67,472,775	0.38	62,250,000

The exercise prices after the Option Adjustment and exercise periods of the Options outstanding as at 31 December 2013 are as follows:

Number of Options after the Option Adjustment	**Exercise price after the Option Adjustment*** *HK$ per share*	**Exercise period**
16,800,450	0.351	11 November 2011 to 10 August 2016
50,672,325^	0.351	11 August 2012 to 10 August 2016^
67,472,775		

The exercise price and exercise periods of the Options outstanding as at 31 December 2012 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.*

At the end of the reporting period, the Company had 67,472,775 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 2013, result in the issue of 67,472,775 additional ordinary shares of the Company and additional share capital of HK$6,747,277 and share premium of HK$16,935,666 (before issue expenses).

Subsequent to the end of the reporting period, as a result of the completion of the Open Offer II in January 2014 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 further adjusted from HK$0.351 to HK$0.233 per share, and from 67,472,775 to 101,519,537 Options of the Company, respectively, pursuant to the terms of the Option Agreement.

At the date of approval of these financial statements, the Company had 101,519,537 Options outstanding with an exercise price of HK$0.233 per share under the Option Agreement, after taking into account the aforementioned adjustment, which represented 4.12% of the Company's shares in issue at that date.

During the year ended 31 December 2013, the Company recognised (i) an equity-settled share option expense under HKFRS 2 *Share-based Payment* of HK$38,876 (2012: HK$399,945) for share options granted in prior periods and vested during the year, and (ii) a reversal of equity-settled share option expense under HKFRS 2 of HK$498,896 (2012: HK$947,119) for options that did not ultimately vest.

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 36 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 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 and at 1 January 2013		43,490,307	10,177,239	7,048,243	3,093,539	(117,197,651)	(53,388,323)
Loss and total comprehensive loss for the year		–	–	–	–	(64,897,112)	(64,897,112)
Equity-settled share option arrangements	26	–	–	–	(460,020)	–	(460,020)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	(773,990)	773,990	–
Issue of shares	25	23,094,750	–	–	–	–	23,094,750
Share issue expenses	25	(2,553,168)	–	–	–	–	(2,553,168)
At 31 December 2013		64,031,889	10,177,239	7,048,243	1,859,529	(181,320,773)	(98,203,873)

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.

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 retained profits/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 retained profits/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. As at 31 December 2012, the trade receivable factoring facilities granted to a subsidiary subject to a guarantee given to banks by the Company were utilised to the extent of approximately HK$41,712,806.

29. Operating lease arrangements

(a) As sublessor

The Group subleases its office premises under the operating lease arrangements with the lease negotiated for a term ranging from one to two years.

At 31 December 2013, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Within one year	54,008	516,250

(b) As lessee

The Group leases its office premises and 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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	**2012**
	HK$	*HK$*
Within one year	473,244	1,415,573
In the second to fifth years, inclusive	492,995	414,227
	966,239	1,829,800

30. Related party transactions

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

(a) During the year, the Group borrowed HK$12 million from a related company pursuant to a loan agreement entered into with the related company, in which, based on information available to the directors of the Company, a significant beneficial shareholder of the Company has a beneficial interest in the related company.

The loan from the related company is unsecured, bears interest at 5% per annum and is repayable on 31 January 2015.

The interest expense recognised by the Group for the year ended 31 December 2013 (2012: Nil) in respect of the loan from the related company amounted to HK$300,000 (2012: Nil).

(b) During the year ended 31 December 2012, the Group entered into a sale and leaseback transaction in respect of a motor vehicle with a related company, in which the spouse of a director and the chief executive officer of the Company at that time, who resigned from such positions during the current year, has a beneficial interest. Based on information available to the directors of the Company and for the purpose of these financial statements, the spouse is also considered to be a significant beneficial shareholder of the Company during the current and prior years. Pursuant to the arrangement, 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 leaseback arrangement was early terminated on 30 June 2013.

The rental expense recognised by the Group for the year ended 31 December 2013 in respect of the motor vehicle leaseback transaction amounted to HK$120,000 (2012: HK$140,000).

(c) In the prior year, the Group borrowed HK$3 million from a related company pursuant to a loan agreement entered into with a related company, in which the spouse of a director and the chief executive officer of the Company at that time has a beneficial interest in the related company. Based on the information available to the directors of the Company and for the purpose of these financial statements, the spouse is also considered to be a significant beneficial shareholder of the Company during that period.

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

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

(d) In the prior year, the Group purchased a motor vehicle from a company at a consideration of approximately HK$348,000. Based on the information available to the directors of the Company, the spouse of a director and the chief executive officer of the Company at that time was then a member of the key management personnel of and had then a beneficial interest in a parent of that company.

(e) For the year ended 31 December 2011, 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 at that time, for the leasing of an office premises by the Group and (ii) a sublease agreement with another company beneficially owned by a then 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"). In the prior 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 was 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 also 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 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.

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.

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

	Group	
	2013	**2012**
	HK$	*HK$*
Short term employee benefits	3,624,667	7,407,865
Post-employment benefits	52,500	65,000
Termination benefits	–	295,200
Equity-settled share option expense, net/(reversal of equity-settled share option expense, net)	14,778	(47,646)
Total compensation paid or payable to key management personnel	3,691,945	7,720,419

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

	2013	**2012**
	HK$	*HK$*
Loans and receivables:		
Trade receivables	85,489,602	78,928,766
Financial assets included in prepayments, deposits and other receivables	8,599,496	40,511,589
Pledged deposits	6,018,550	16,195,487
Cash and cash equivalents	26,139,149	43,155,687
	126,246,797	178,791,529

Financial liabilities

	2013	**2012**
	HK$	*HK$*
Financial liabilities at amortised cost:		
Trade payables	85,274,587	84,403,598
Other payables and accruals	7,423,785	18,773,173
Interest-bearing bank and other borrowings	43,630,795	137,036,232
	136,329,167	240,213,003

Company

Financial assets

	2013	2012
	HK$	*HK$*
Loans and receivables:		
Due from subsidiaries	20,163,795	8,636,420
Cash and cash equivalents	24,272,684	30,315,505
	44,436,479	38,951,925

Financial liabilities

	2013	2012
	HK$	*HK$*
Financial liabilities at amortised cost:		
Other payables and accruals	731,140	324,779
Other borrowings	43,630,795	43,643,015
	44,361,935	43,967,794

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. During the year ended 31 December 2013, the Group ceased to factor its trade receivables with the bank.

As at 31 December 2012, the Group factored trade receivables of HK$52,206,116 to a bank for cash. As the financial asset derecognition conditions as stipulated in HKAS 39 *Financial Instruments: Recognition and Measurement* had not been fulfilled, the Group's factored receivables were not derecognised in their entirety. Subsequent to the transfer, the Group did 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 included in other receivables and recognised their associated liabilities of HK$8,500,184 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 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:

	2013	**2012**
	HK$	*HK$*
Carrying amount of the transferred financial assets (Factored trade receivables)	–	8,470,984
Carrying amount of associated liabilities	–	(8,500,184)

33. Fair value and fair value hierarchy of financial instruments

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals and current portion of bank and other borrowings, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance team headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance team reports directly to the directors and the audit committee. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant.

The Group and the Company did not have any financial assets and liabilities measured at fair value as at 31 December 2013 and 31 December 2012.

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 financial liabilities included in 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

As at 31 December 2013 and 31 December 2012, the Group is exposed to fair value interest rate risk in relation to the other borrowings of the Group with fixed interest rates. The Group currently does not have any fair value interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2012, the Group was also exposed to the risk of changes in market interest rates related to the Group's interest bearing bank borrowings with floating interest rates. The Group did not use derivative financial instruments to hedge its interest rate risk. The Group mitigated this risk by closely monitoring the movements in interest rates.

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) for the year ended 31 December 2012.

	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

Foreign currency risk

The Group has transactional currency exposures. These 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 2013 and 2012, and the units' monetary assets and liabilities denominated in foreign currencies 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 or with customers with long term/strategic relationships. The receivable balances of the Group are monitored by senior management on an ongoing basis. Since the Group primarily trades with recognised and creditworthy third parties or with customers with long term/strategic relationships, there is normally no requirement for collateral, except for certain arrangements with a customer, as further detailed in notes 17 and 18 to the financial statements.

The credit risk of the Group's financial assets, which comprise trade receivables, financial assets included in 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 was also exposed to credit risk through the granting of financial guarantees outstanding as at 31 December 2012, 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 32.5% (2012: 16.9%) and 89.5% (2012: 74.8%) 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.

Liquidity risk

The Group monitors its risks to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations. In the prior years, the Group tried to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. After the implementation of the Cost-saving/Value-adding Measurements as further detailed in note 2.1 to the financial statements, and the capital fund raising exercises during the current year and after the end of the reporting period, the Group aims to maintain sufficient cash and cash equivalents and cash flows from operations 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

		2013	
	On demand or less than 1 year	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
Trade payables	85,274,587	–	85,274,587
Other payables and accruals	7,423,785	–	7,423,785
Interest-bearing other borrowings *(note)*	31,330,795	12,950,000	44,280,795
	124,029,167	12,950,000	136,979,167

	2012		
	On demand or less than 1 year	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
Trade payables	84,403,598	–	84,403,598
Other payables and accruals	18,675,977	–	18,675,977
Interest-bearing bank and other borrowings *(note)*	92,692,264	54,420,282	147,112,546
	195,771,839	54,420,282	250,192,121

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

	2013		
	On demand or less than 1 year	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
Financial liabilities – other payables and accruals	731,140	–	731,140
Interest-bearing other borrowings *(note)*	31,330,795	12,950,000	44,280,795
	32,061,935	12,950,000	45,011,935

	2012		
	On demand or less than 1 year	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
Financial liabilities – other payables and accruals	324,779	–	324,779
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	115,886,380	–	115,886,380
	119,211,159	50,139,726	169,350,885

Note:

Included in the above interest-bearing bank and other borrowings of the Group and the Company are certain term loans with carrying amounts as at 31 December 2013 of HK$31,330,795 (2012: HK$49,932,162) and HK$31,330,795 (2012: HK$43,643,015), 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 other loan of the Group and the Company in the amount of HK$31,330,795 are classified as "on demand" as at 31 December 2013. Such other borrowing was subsequently settled in full in February 2014.

As at 31 December 2012, for the purpose of the above maturity profile, the contractual undiscounted payments of such bank loans of the Group totalling HK$6,289,147 and of such other loan of the Group in the amount of HK$50,139,726 were 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 was classified as "1 to 5 years".

In accordance with the terms of the interest-bearing bank and other borrowings 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	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
As at 31 December 2013	2,939,836	40,120,000	43,059,836
As at 31 December 2012	9,436,288	62,000,000	71,436,288

Company

	Less than 1 year	**1 to 5 years**	**Total**
	HK$	*HK$*	*HK$*
As at 31 December 2013	2,939,836	40,120,000	43,059,836
As at 31 December 2012	3,000,000	62,000,000	65,000,000

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. As at 31 December 2012, the Group was subject to certain capital requirements, such as gearing ratio and net tangible assets requirements, imposed by certain banks which granted certain banking facilities to the Group in the prior year. These capital requirements are monitored by management on an ongoing basis. The Group is not subject to any externally imposed capital requirements after the repayment of the relevant bank borrowings under those banking facilities in the current year.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

35. Events after the reporting period

(1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK$0.1 to HK$0.01 per share by cancelling paid-up capital of HK$0.09 per share (the "Capital Reduction") and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK$0.1 each into 10 unissued ordinary shares of the Company with a par value of HK$0.01 each (the "Sub-division"). Subsequent to the end of the reporting period, on 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division had been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).

(2) Subsequent to the end of the reporting period, on 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed the Open Offer II to issue 1,344,600,000 ordinary shares of the Company to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK$0.05 per offer share. The Open Offer II was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer II became unconditional and the dealing of the offer shares was commenced on 28 January 2014.

36. Approval of the consolidated financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

3. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014

The following is the unaudited financial information of the Group for the six months ended 30 June 2014 extracted from the unaudited interim results announcement for the six months ended 30 June 2014 of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	**2013**
	Notes	*HK$*	*HK$*
		(Unaudited)	(Unaudited)
REVENUE	*3*	17,166,563	94,399,125
Cost of sales		(11,475,785)	(80,839,055)
Gross profit		5,690,778	13,560,070
Other income and gain		4,973,144	444,373
Research and development costs		(2,602,784)	(1,744,932)
Selling and distribution costs		(5,796,371)	(8,111,322)
General and administrative expenses		(7,485,240)	(10,992,314)
Other expenses		(5,338,671)	(6,776,600)
Finance costs	*5*	(58,863)	(3,690,951)
LOSS BEFORE TAX	*6*	(10,618,007)	(17,311,676)
Income tax	*7*	–	–
LOSS FOR THE PERIOD		(10,618,007)	(17,311,676)
Attributable to owners of the parent		(10,618,007)	(17,311,676)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	*8*	(0.47) cents	(1.90) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	30 June 2014 HK$ (Unaudited)	31 December 2013 HK$ (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		2,517,993	3,835,136
Deferred development costs		12,139,063	18,123,387
Long term deposits		172,228	172,228
Deferred tax assets		2,406,665	2,406,665
Total non-current assets		17,235,949	24,537,416
CURRENT ASSETS			
Inventories		4,461,093	4,188,240
Trade receivables	*10*	35,087,855	85,489,602
Prepayments, deposits and other receivables		8,166,933	8,599,496
Pledged deposit		3,923,920	6,018,550
Cash and bank balances		49,676,423	26,139,149
Total current assets		101,316,224	130,435,037
CURRENT LIABILITIES			
Trade payables	*11*	34,814,289	85,274,587
Other payables and accruals		9,073,777	10,846,371
Interest-bearing other borrowing		–	31,330,795
Tax payable		846,039	868,537
Provision		–	672,700
Total current liabilities		44,734,105	128,992,990
NET CURRENT ASSETS		56,582,119	1,442,047
TOTAL ASSETS LESS CURRENT LIABILITIES		73,818,068	25,979,463

	Notes	30 June 2014 HK$ (Unaudited)	31 December 2013 HK$ (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing other borrowing		6,600,000	12,300,000
Total non-current liabilities		6,600,000	12,300,000
Net assets		67,218,068	13,679,463
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*12*	24,651,000	112,050,000
Reserves		42,567,068	(98,370,537)
		67,218,068	13,679,463

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	**2013**
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(764,102)	(307,902)
Net cash inflow/(outflow) from investing activities	2,308,642	(5,068,858)
Net cash inflow/(outflow) from financing activities	21,957,527	(15,236,577)
Net increase/(decrease) in cash and cash equivalents	23,502,067	(20,613,337)
Cash and cash equivalents at 1 January	26,139,149	31,592,765
Effect of foreign exchange rate changes, net	35,207	34,085
Cash and cash equivalents at end of period	49,676,423	11,013,513
Analysis of balances of cash and cash equivalents		
Cash and bank balances	49,676,423	17,840,839
Bank overdrafts	–	(6,827,326)
	49,676,423	11,013,513

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Issued capital	Share premium account	Capital reserve	Warrant reserve	Share option reserve	Exchange fluctuation reserve	Accumulated loss	Total Equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
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 share	31,125,000	8,901,750	–	–	–	–	–	40,026,750
Share issue cost	–	(1,770,417)	–	–	–	–	–	(1,770,417)
Total comprehensive loss for the period	–	–	–	–	–	153,294	(17,311,676)	(17,158,382)
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(430,850)	–	430,850	–
Equity-based share option arrangement	–	–	–	–	(345,571)	–	–	(345,571)
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
At 1 January 2014 (unaudited)	112,050,000	64,031,889	43,823,276	7,048,243	1,859,529	2,785,048	(217,918,522)	13,679,463
Capital reduction	(100,845,000)	–	–	–	–	–	100,845,000	–
Issue of share	13,446,000	53,784,000	–	–	–	–	–	67,230,000
Share issue cost	–	(2,844,146)	–	–	–	–	–	(2,844,146)
Total comprehensive loss for the period	–	–	–	–	–	(229,242)	(10,618,007)	(10,847,249)
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(54,429)	–	54,429	–
At 30 June 2014 (unaudited)	24,651,000	114,971,743	43,823,276	7,048,243	1,805,100	2,555,806	(127,637,100)	67,218,068

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	**2013**
	HK$	*HK$*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	(10,618,007)	(17,311,676)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	(229,242)	153,294
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(10,847,249)	(17,158,382)
Attributable to:		
Owners of the parent	(10,847,249)	(17,158,382)

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 2014, the Group was primarily involved in the research, design and development and sale of digital signal processing ("DSP") based consumer devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

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 2013.

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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation–Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 Impairment of Assets – *Recoverable Amount Disclosures for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 Financial instrument: *Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) – Int 21	Levies

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:

	Six months ended 30 June	
	2014	**2013**
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Sales of products	8,287,169	91,892,776
Rendering of services	8,879,394	2,163,869
Royalty income	–	342,480
	17,166,563	94,399,125

4. Operating segment information

The Group focuses on the research, design and development and sale of DSP-based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components. 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 six months ended 30 June 2014 and 2013 by geographical areas.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Six months ended 30 June 2014						
Revenue from external customers (Unaudited)	765,753	8,131,635	7,493,993	420,426	354,756	17,166,563
Six months ended 30 June 2013						
Revenue from external customers (Unaudited)	34,401,261	27,087,738	5,248,855	8,830,184	18,831,087	94,399,125

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, which is based on the locations where the customers are domiciled/located.

5. Finance costs

	Six months ended 30 June	
	2014	**2013**
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other loan wholly repayable within five years	18,129	3,042,330
Bank charges	40,734	648,621
	58,862	3,690,951

6. Loss before tax

The Group's loss before tax is after charging:

	Six months ended 30 June	
	2014	**2013**
	HK$	*HK$*
	(Unaudited)	(Unaudited)
Depreciation	1,242,319	1,653,394
Research and development costs:		
– Deferred expenditure amortised	5,868,592	8,615,426

7. Income tax

No provision for profits tax has been made for the six months ended 30 June 2014 and 2013 as the Group did not generate any assessable profits during those periods.

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% for the six months ended 30 June 2014 and 2013.

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$10.6 million (2013: HK$17.3 million), and the weighted average number of 2,263,410,000 ordinary shares in issue (2013: 933,750,000 ordinary shares).

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2014 and 2013 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 2014 and 2013.

9. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: 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:

	30 June 2014	**31 December 2013**
	HK$	*HK$*
	(Unaudited)	(Audited)
Within 30 days	254,610	3,910,733
31 to 60 days	1,028,686	20,635,405
61 to 90 days	1,299,197	21,436,571
Over 90 days	32,505,362	39,506,893
	35,087,855	85,489,602

The decrease in the balance as at 30 June 2014 was mainly due to the decrease in revenue during the six months ended 30 June 2014. The credit period is generally 30 to 90 days or 90 days after month-end statement, or could be longer under certain circumstances.

11. Trade payables

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

	30 June 2014	**31 December 2013**
	HK$	*HK$*
	(Unaudited)	(Audited)
Within 30 days	282,000	27,732,890
31 to 60 days	1,632,814	15,703,220
Over 60 days	32,899,475	41,838,477
	34,814,289	85,274,587

The decrease in the balance as at 30 June 2014 was mainly due to the decrease in revenue during the six months ended 30 June 2014. The credit period is generally 30 to 120 days or 90 days after month-end statement.

12. Share capital

Shares:

	Number of ordinary shares	Issued capital *HK$*	Share premium account *HK$*	Total *HK$*
At 1 January 2014 (unaudited)	1,120,500,000	112,050,000	64,031,889	176,081,889
Capital reduction *(Note 1)*	–	(100,845,000)	–	(100,845,000)
Issue of new shares in connection with the Open Offer *(Note 2)*	1,344,600,000	13,446,000	53,784,000	67,230,000
Share issue costs	–	–	(2,844,146)	(2,844,146)
At 30 June 2014 (unaudited)	2,465,100,000	24,651,000	114,971,743	139,622,743

Notes:

1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK$0.1 to HK$0.01 per share by cancelling paid-up capital of HK$0.09 per share (the "Capital Reduction") and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK$0.01 each (the "Sub-division"). On 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division ad been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).

2) On 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed an open offer (the "Open Offer") to issue 1,344,600,000 ordinary shares of the Company (the "Offer Shares") to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK$0.05 per share. The Open Offer was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer became unconditional and the dealing of the Offer Shares was commenced on 28 January 2014.

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 and the Open Offer, the subscription price of the outstanding warrants was adjusted to HK$0.14. The exercise in full of the warrants would, under the capital structure of the Company as at 30 June 2014, result in the issue of 120,053,571 additional ordinary shares of the Company.

Business review

During the six months ended 30 June 2014, revenue of the Group decreased by approximately 81.8% to HK$17.2 million from HK$94.4 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$83.6 million, or approximately 91.0%, from HK$91.9 million in the six months ended 30 June 2013 to HK$8.3 million in the current period under review. This was mainly because since 2013, our product mix had been shifting from our traditional audio and visual products with relatively higher sales volume but lower profit margin to our golf swing analyser ("3BaysGSA") with relatively lower sales volume but much higher profit margin. Accordingly, the Group had ceased the business with one of its largest customers since December 2013.

Besides the shift of product mix to more profitable products, the Group also focused on the provision of project management services during 2014. The income from rendering of such services during the six months ended 30 June 2014 amounted to HK$8.9 million, representing an increase of 310.3% as compared to six months ended 30 June 2013.

As a result of the shift of product mix, the overall gross profit margin for the six month ended 30 June 2014 increased to 33.2% from 14.4% as recorded in the corresponding period in the last fiscal year; and the gross profit decreased by 58.0% to HK$5.7 million during the current period under review. However, with the cost-saving measures (the "Cost-saving Measures"), including but not limited to (a) streamline the operation flows; (b) reduction of manpower; and (c) tightening of cost control policies in 2013, the net loss of the Group for the six months ended 30 June 2014 was narrowed down to HK$10.6 million, as compared to the net loss of HK$17.3 million recorded in the corresponding period in the last fiscal year.

4. INDEBTEDNESS STATEMENT

As at the close of business on 16 July 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Response Document, apart from the intra-group liabilities and trade payables, the Group did not have any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

5. MATERIAL CHANGE

The Directors confirmed that, save for:

(i) a decrease in revenue by HK$77.2 million during the six months ended 30 June 2014 as compared to the same period in 2013 resulted from the shift of product mix and cassation of business with one of the largest customers of the Group as disclosed in the unaudited interim results announcement of the Company for the six months ended 30 June 2014 dated 11 August 2014 (the "**Interim Results**");

(ii) an increase in other income by HK$4.5 million during the six months ended 30 June 2014 as compared to the same period in 2013, mainly resulted from the waiver of interests on certain borrowings of the Group as granted by the respective lenders as disclosed in the Interim Results;

(iii) decrease in general and administrative expenses and selling and distribution costs by HK$3.5 million and HK$2.3 million, respectively, during the six months ended 30 June 2014 as compared to the same period in 2013, resulted from the implementation of cost saving measures adopted by the Group as disclosed in the Interim Results;

(iv) a substantial improvement of cash and cash equivalents and the net asset value of the Group by HK$23.5 million and HK$53.5 million, respectively, resulted from the fund raised from an open offer ("**Open Offer**") completed during the six months ended 30 June 2014 as disclosed in the Interim Results;

(v) a reduction in trade receivables and trade payables as a result of decrease in revenue during the six months ended 30 June 2014 as disclosed in the Interim Results;

(vi) a decrease in other borrowings by HK$37.0 million as a result of the Group utilizing part of the proceeds raised from the Open Offer for repayment during the six months ended 30 June 2014 as disclosed in the Interim Results,

there has been no material change in the financial or trading position or outlook of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

6. BUSINESS PROSPECTS

Trading and financial prospects of the Group

As at the Latest Practicable Date, the Group was principally engaged in the research, design, development and sale of digital signal processing ("**DSP**") based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

As disclosed in the annual report of the Company for the year ended 31 December 2013, the revenue of the Group for the year ended 31 December 2013 decreased by approximately 41.3% to approximately HK$200.0 million from HK$340.9 million as recorded in the year ended 31 December 2012. The decrease was mainly attributable to the decrease in sales of goods by 42.6% from approximately HK$337.2 million in 2012 to approximately HK$193.5 million for the year ended 31 December 2013, which was mainly because of the change in product mix in 2013 when the Group has been focusing on the promotion and sale of golf swing analyser ("**3BaysGSA**"), which was launched in the second half of 2012 with much higher profit margin than the traditional products of the Group.

The overall gross profit of the Group for the year ended 31 December 2013 was approximately HK$20.6 million, which decreased by approximately 19.3% as compared to the gross profit in 2012. However, the gross profit margin increased by approximately 2.8% from 7.5% in 2012 to 10.3% in 2013. This was mainly contributed by the increase in sale of the 3BaysGSA, which commanded a higher profit margin than other products of the Group.

During the year ended 31 December 2013, the net loss of the Group narrowed down to approximately HK$65.2 million from HK$96.6 million as recorded in 2012, mainly because of (i) the decrease in operating expenses by approximately 49.7% from approximately HK$87.7 million in 2012 to approximately HK$44.1 million in 2013 after the implementation of certain cost-saving measures, including but not limited to (a) streamlining the operation flows and focusing on core product development; (b) centralising our employees in Hong Kong from two office premises to one office premises; and (c) tightening our cost control policies on various expenditures in 2013; and (ii) the increase in other expenses resulted from impairment of certain trade and other receivables amounted to approximately HK$38.7 million.

In terms of revenue breakdown, during the year ended 31 December 2013 under review, revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 96.7% (2012: 98.9%), Nil% (2012: 0.1%) and 3.3% (2012: 1.0%), respectively.

During the year ended 31 December 2013, the Group had been focusing on promoting and marketing the 3BaysGSA, which embedded a 3 axial G-sensor and Gyroscope sensor to capture more than 10,000 data points per swing and shows the results, including the club head speed, tempo, face angle and review of swing arc immediately on an Android OS or iOS product through Bluetooth communications, so as to help the golfers to practise a constant and better swing. The 3BaysGSA was proven to be well accepted by the market and the Group received many positive feedbacks, especially from the golf coaches. Furthermore, other than worldwide sports outlets and online stores, the Group successfully launched the 3BaysGSA on the Apple Stores in the United States, Canada and Europe during the year ended 31 December 2013.

Looking forward, the Group will continue to enhance the functionalities of the 3BaysGSA and explore new sales channels worldwide. With the success of the 3BaysGSA, the Group will also allocate resources on developing other sports activity analysers by utilising its unique sensor technology. On the other hand, in order to enhance the popularity of the Group’s products, the Group is also considering to build up and promote its own brand “3Bays” in the coming year.

1. RESPONSIBILITY STATEMENT

All Directors other than Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest jointly and severally accept full responsibility for the accuracy of the information contained in this Response Document (other than those relating to the Offeror, its ultimate beneficial owner(s) and parties acting in concert with them and the terms of the Offers), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Response Document (other than opinions expressed by the director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in this Response Document misleading.

The information contained in this Response Document relating to the Offeror, its ultimate beneficial owner(s) and parties acting in concert with them and the terms of the Offers has been extracted or derived from the Offer Document and confirmation from the Offeror. The Directors other than Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

2. CORPORATE INFORMATION OF THE COMPANY

The Company is incorporated in the Cayman Islands on 11 September 2009 with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The principal activities of the Company is investment holding and the principal activities of its subsidiaries are the research, design, development and sale of DSP based consumer electronic devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

The address of its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

3. SHARE CAPITAL AND SHARE OPTIONS OF THE COMPANY

The authorised share capital and the issued share capital of the Company as at the Latest Practicable Date were HK$200,000,000 divided into 20,000,000,000 Shares and HK$30,813,750 divided into 3,081,375,000 Shares, respectively.

All existing issued Shares rank pari passu in all respect including all rights as to dividends, voting and interests in capital. As at the Latest Practicable Date, save for the Options and the Warrants, the Company had no outstanding options, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares.

Since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date, the Company had (i) issued 1,344,600,000 new Shares on 24 January 2014 pursuant to an open offer (details of which are set out in the announcement of the Company dated 24 January 2014) and (ii) issued 616,275,000 new Shares pursuant to the Subscription Agreement (details of which are set out in the Joint Announcement and the circular of the Company dated 16 June 2014).

4. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the ordinary shares of the Company:

Name of Director	Capacity/ Nature of interest	Number of Shares interested *(Note 1)*		Percentage of the Company's issued share capital
Mr. Lee Rabi	270,000	270,000	(L)	0.01%
Ms. Deng Shufen *(Note 2)*	Interest in a controlled corporation	1,626,713,121	(L)	52.79%
Mr. Dai Yumin *(Note 3)*	Interest of spouse	1,626,713,121	(L)	52.79%

Note:

1. The letter "L" denotes the person's long position in the Shares.

2. Ms. Deng Shufen owns Nat-Ace Pharmaceutical Ltd. as to 60%, which in turn owns 1,626,713,121 of the Shares. Accordingly, Ms. Deng Shufen is deemed to have interest in the Shares held by Nat-Ace Pharmaceutical Ltd.

3. Mr. Dai Yumin is the spouse of Ms. Deng Shufen. Accordingly, Mr. Dai Yumin is deemed to have interest in the Shares which Deng Shufen is interested in.

Save as disclosed above, no other Director or proposed Director owns, holds or controls any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

(b) Interests and short positions of the substantial Shareholders in the Shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of substantial Shareholders	Capacity/ Nature of interest	Number of Shares interested *(Note 1)*	Percentage of the Company's issued share capital
Ms. Deng Shufen *(Note 2)*	Interest in a controlled corporation	1,626,713,121 (L)	52.79%
Mr. Dai Yumin *(Note 3)*	Interest of spouse	1,626,713,121 (L)	52.79%
Nat-Ace Pharmaceutical Ltd.	Beneficial interest	1,626,713,121 (L)	52.79%

Note:

1. The letter "L" denotes the person's long position in the Shares.

2. Ms. Deng Shufen owns Nat-Ace Pharmaceutical Ltd. as to 60%, which in turn owns 1,626,713,121 of the Shares. Accordingly, Ms. Deng Shufen is deemed to have interest in the Shares held by Nat-Ace Pharmaceutical Ltd.

3. Mr. Dai Yumin is the spouse of Ms. Deng Shufen. Accordingly, Mr. Dai Yumin is deemed to have interest in the Shares which Deng Shufen is interested in.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares or/and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as stated above, as at the Latest Practicable Date, according to the register of interests required to be kept by the Company under Section 336 of the SFO, no other persons were recorded to hold any long or short positions in the Shares or underlying Shares or the equity derivatives of the Company.

5. INTEREST IN THE COMPANY AND THE OFFEROR

As at the Latest Practicable Date,

(a) save that the Offeror is owned by Ms. Deng Shufen, Ms. Liu Jiangyuan and Mr. Gui Bin as to 60%, 20% and 20%, respectively, none of the Company nor the Directors was interested in or owned or controlled any shares, convertible securities, warrants options or derivatives of the Offeror;

(b) save as disclosed in section 4 of this Appendix, none of the Offeror, its shareholders, its ultimate beneficial owners, its directors nor parties acting in concert with any of them was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into Shares;

(c) there was no shareholding in the Company which the Offeror, its shareholders, its ultimate beneficial owners, or any party acting in concert with any of them has borrowed or lent;

(d) there was no shareholding in the Company which the Company, its shareholders, its ultimate beneficial owners, or any Directors has borrowed or lent;

(e) Mr. Lee, Rabi had indicated that he intended to reject the Share Offer in respect of his beneficial interests in the Shares;

(f) save for the arrangement of resignation contemplated thereunder as set out under the section headed "Change of Board composition" in the "Letter from the Board" of this Response Document, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;

(g) save for the arrangement of resignation as mentioned under the Announcement and as set out under the section headed "Change of Board composition" in the "Letter from the Board" of this Response Document, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offers;

(h) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(i) none of the Offeror or any parties acting in concert with it has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person. CCB International has not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) during the Relevant Period;

(j) no Shares, convertible securities, warrants, options or derivatives of the Company was managed on a discretionary basis by fund managers connected with the Company;

(k) none of the Independent Shareholders and the holder of the Options prior to the posting of this Response Document had irrevocably committed himself or herself or itself to accept or reject the Offers;

(l) none of the advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

(m) none of the Company or any of its Directors has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives issued by the Company;

(n) there was no agreement or arrangement to which the Offeror was a party which related to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offers; and

(o) no person has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

6. DEALINGS IN SECURITIES AND ARRANGEMENTS IN RELATION TO DEALINGS

During the Relevant Period,

(a) save for the sale and purchase of the Sale Shares under the Sale and Purchase Agreement as disclosed in the "Letter from CCB International" in the Offer Document, none of the Offeror, its shareholders, its ultimate beneficial owners, its directors nor parties acting in concert with the Offeror had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;

(b) none of the Company or the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror;

(c) none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;

(d) no fund managers who were connected with the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;

(e) none of the advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company; and

(f) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company.

7. DIRECTORS' SERVICE CONTRACTS AND OTHER INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies (a) which (including continuous or fixed term contracts) were entered into or amended within six months preceding the commencement of the Offer Period; (b) which were continuous contracts with a notice period of 12 months or more; or (c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

Directors	Date of service contract	Expiry date of service contract *(Note)*	Fixed annual remuneration under relevant service contract
Mr. William Keith Jacobsen	7 January 2014	6 January 2015	HK$50,000
Mr. Ng Wai Hung	7 January 2014	6 January 2015	HK$50,000
Ms. Deng Shufen	16 July 2014	15 July 2017	HK$1,200,000
Mr. Dai Yumin	16 July 2014	15 July 2017	HK$1,200,000
Ms. Liu Jiangyuan	16 July 2014	15 July 2017	HK$1,200,000
Mr. Gui Bin	16 July 2014	15 July 2017	HK$1,200,000
Mr. Wang Yongbin	16 July 2014	15 July 2017	HK$960,000
Mr. Fang Jun	16 July 2014	15 July 2017	HK$120,000
Mr. Zhao Xianming	16 July 2014	15 July 2017	HK$120,000
Mr. Wong Yiu Kit, Ernest	16 July 2014	15 July 2017	HK$120,000

Note: The term of office of each of the aforesaid Directors is 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.

Each of the two independent non-executive Directors, Mr. William Keith Jacobsen and Mr. Ng Wai Hung, has entered into a service agreement with the Company dated 7 January 2014 (the "**Existing Service Contracts**") for a term of one year commencing on 7 January 2014 to renew their respective earlier service contract dated 7 January 2013 (the "**Expired Service Contracts**") which was for a term of one year commencing from 7 January 2013 to 6 January 2014. The fixed annual remuneration for Mr. William Keith Jacobsen and Mr. Ng Wai Hung under the Existing Service Contracts and the Expired Service Contracts is both HK$50,000. Either the relevant independent non-executive Director or the Company may terminate the agreement by giving the other party not less than six months' notice in writing or by making a payment of six months' salary in lieu of notice. There was no material change to the material terms of the Existing Service Contracts as compared with the Expired Service Contracts.

Each of the eight newly appointed Directors, Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest, has entered into a service agreement with the Company dated 16 July 2014 for a term of three years commencing on 16 July 2014. The fixed annual remuneration for each of them under the above service contracts is disclosed in the table above. Either the relevant Director or the Company may terminate the agreement by giving the other party not less than three months' notice in writing.

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any other member of the Group nor were there any other service agreements proposed to be entered into by any of the Directors which would not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

No benefit (other than statutory compensation) has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Offers.

There was no material contract to which the Offeror is a party in which any Director has a material personal interest.

8. LITIGATION

Set out below are the various material lawsuits in relation to the Group as disclosed in the Company's announcement dated 22 February 2013 and 20 November 2013, respectively:

(i) On 22 October 2012, PD Trading (Hong Kong) Limited, a wholly-owned subsidiary of the Company, issued a writ of summons in the court of first instance of the high court of Hong Kong (the "**Court**") against Teleepoch Limited ("**Teleepoch**"), a company whose business address is in Shenzhen, the PRC, claiming the sum of HK$9,206,800.98 being the aggregate amount of 11 dishonoured cheques issued by Teleepoch and interest thereon. As Teleepoch is a foreign company, the plaintiff has applied to and obtained permission from the Court to serve the writ of summons on Teleepoch outside of the jurisdiction of Hong Kong. On 21 October 2013, the Court adjudged that Teleepoch should pay PD Trading (Hong Kong) Limited the sum of HK$9,206,800.98.

(ii) On 22 October 2012, Perception Digital Limited ("**PDL**"), a wholly-owned subsidiary of the Company, issued a writ of summons in the Court against Wang Chuan, a PRC resident, claiming the sum of US$360,000 being outstanding loan principal due with interest accrued and owing by Wang Chuan to PDL under a loan agreement dated 1 March 2012 entered into between PDL and Wang Chuan. As Wang Chuan is a PRC resident, the plaintiff has applied to and obtained permission from the Court to serve the writ of summons on the Wang Chuan outside of the jurisdiction of Hong Kong. On 19 August 2013, the Court adjudged that Wang Chuan should pay PDL the sum of US$360,000 or the equivalent Hong Kong dollars.

(iii) On 26 November 2012, PDL, a wholly-owned subsidiary of the Company, issued a writ of summons in the Court against Monsoon Multimedia Inc. ("**Monsoon**") as the first defendant claiming (i) the sum of US$4,126,399 being the aggregate amounts due and owing by Monsoon to PDL under, inter alia, (aa) a running account between PDL and Monsoon resulted in various trading activities as to US$81,457; (bb) a debt conversion agreement dated 1 June 2011 entered into between PDL and Monsoon, whereby Monsoon inter alia granted an option to PDL to convert debts owned by Monsoon to PDL into the common shares in Winfort Global Limited ("**Winfort**"), the parent company of Monsoon. Up to the date of writ of summons, PDL never exercised the option granted and Monsoon remained so indebted to PDL as to US$1,014,209.32; (cc) a distribution agreement entered into between PDL and Monsoon dated 7 December 2010 whereby PDL agreed inter alia to develop and distribute for Monsoon an electronic device and related client software marketed under the name of "Vulkano" under which Monsoon owed PDL for an amount of US$537,689.69; (dd) a (loan) agreement entered into and signed by PDL, Monsoon and Winfort, under which several loan advancement were made by PDL to Monsoon, resulting in a net sum of US$1,287,528 which was overdue and payable by Monsoon to PDL; (ee) a master service agreement entered into by Monsoon and PDL on 13 October 2010, PDL inter alia provided some services to Monsoon and a total sum of US$500,000 was overdue and payable by Monsoon to PDL; among the aforesaid transaction, PDL also claims from Monsoon an additional US$705,515 being interest on the outstanding balances; and (ii) a declaration that PDL be entitled to the immediate release of the source code, the patents and other intellectual property from an escrow agent to PDL under a tri-party escrow service agreement dated 22 December 2011 entered into among PDL, Monsoon and Iron Mountain Intellectual Property Management Inc. pursuant to clause 7(c)(dd) under the loan agreement which states that if the debts owed by Monsoon to PDL are over US$500,000, or if Monsoon fails to pay back the debts owed by Monsoon to PDL by 30 May 2012, then the source code, patents and other intellectual property put under the tri-party escrow service agreement shall be released to PDL unconditionally and free of charge, and that PDL shall own, and/or have the right to use, the source code, the said patents and other intellectual property freely or sell them to a bona fide buyer; and against Prabhat Jain as the second defendant, claiming the sum of US$4,126,399 under a personal guarantee dated 7 December 2011 executed by Prabhat Jain in favour of PDL guaranteeing the full and punctual payment when due, any amount of debts owed by Monsoon to PDL. As the proceedings are still in the progress, the Company is not in a position to estimate when the court hearing will commence.

(iv) On 20 November 2013, a writ of summons in the High Court (the "**Legal Action**") was served on two wholly-owned subsidiaries of the Company, namely, PDL and PD Trading (Hong Kong) Limited (collectively, the "**Defendant Companies**"). The Legal Action relates to a dispute between the Defendant Companies and a supplier of the Group (the "**Claimant**"), who now seeks to claim from the Defendant Companies, inter alia, an alleged sum of US$3,723,670.23 (equivalent to HK$29,044,628 based on an exchange rate of US$1.00 = HK$7.80) (the "**Relevant Sum**"). The Claimant alleged that the Relevant Sum relates to outstanding but unpaid invoices for certain goods supplied by the Claimant to the Defendant Companies. Upon obtaining the legal advice from our Hong Kong legal advisors, the Group intends to contest the Claimant's allegations in the Legal Action. As the Legal Action is still in progress, the Company considers that it is impracticable to estimate the potential impact of the Legal Action on the Group.

As at the Latest Practicable Date, save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The Company or any of its subsidiaries had, within the two years preceding the commencement of the Offer Period and up to and including the Latest Practicable Date, entered into the following contracts which was or might be material, other than contracts in the ordinary course of business carried on or intended to be carried on by the Group:

(a) the Subscription Agreement;

(b) the underwriting agreement dated 14 November 2013 entered into by and among the Company, China Galaxy International Securities (Hong Kong) Co., Limited and Head & Shoulders Securities Limited (as underwriters) and Keen Platinum Limited, Capital Fame Technology Limited, Swanland Management Limited, Masteray Limited and Ms. Loh Jiah Yee, Katherine (as undertaking shareholders) in relation to the underwriting arrangement of the proposed issue of 1,344,600,000 offer Shares on the basis of six new Shares for every five Shares held at HK$0.05 per offer Share;

(c) the placing agreement dated 22 August 2013 and the deed of variation dated 23 August 2013 entered into between the Company and China Galaxy International Securities (Hong Kong) Co., Limited (as the placing agent) in relation to the placing of 186,750,000 new Shares at the placing price of HK$0.176 per Share;

(d) the underwriting agreement dated 30 January 2013, entered into by and among the Company, Capital Fame Technology Limited and Keen Platinum Limited (as the underwriters) and Swanland Management Limited, Masteray Limited and Ms. Loh Jiah Yee, Katherine (as the undertaking shareholders) in relation to the open offer on the basis of one offer Share for every two Shares held at the subscription price of HK$0.1286 per offer Share;

(e) a loan agreement dated 18 October 2012 and entered into between the Company and Capital Fame Technology Limited in relation to a loan facility of HK$50,000,000 granted by Capital Fame Technology Limited to the Company for a term of five years at an interest rate of 6% per annum; and

(f) a warrant subscription agreement dated 18 October 2012 and entered into between the Company and Capital Fame in relation to the issue by the Company and the subscription by Capital Fame Technology Limited of the Warrants.

10. CONSENT AND QUALIFICATION

The following is the name and the qualification of the professional adviser whose letter, opinions or advice are contained or referred to in this Response Document:

Name	Qualification
Platinum Securities	A licensed corporation under the SFO for carrying out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

Platinum Securities has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion herein of its letter, opinions or advice (as the case may be) and references to its names in the form and context in which it appears.

As at the Latest Practicable Date, Platinum Securities did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any direct or indirect interests in any assets which have been, since ended 31 December 2013 (being the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

11. GENERAL

As at the Latest Practicable Date:

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands and the principal place of business of the Company is 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. The Board comprises executive Directors, Mr. Mung, Ms. Liu, Yee Nee, Mr. Lee, Rabi, Ms. Deng Shufen, Mr. Dai Yumin, Ms. Lin Jiangyuan and Mr. Gui Bin; non-executive Director, Mr. Wang Yongbin; and independent non-executive Directors, Ms. Zhou Jing, Mr. Ng, Wai Hung, Mr. William Keith Jacobsen, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest.

(b) The company secretary of the Company is Mr. Lee, Rabi, who is a member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered office of Platinum Securities is situated at 21/F LHT Tower, 31 Queen's Road Central, Hong Kong.

(d) In the event of inconsistency, the English texts of this Response Document shall prevail over their respective Chinese texts.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection, during the period from 15 August 2014, being the date of this Response Document for so long as the Offers remains open for acceptance, at (i) the website of the SFC at http://www.sfc.hk; (ii) the website of the Company at http://www.perceptiondigital.com, and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m., except for Saturdays, Sundays and public holidays) the principal place of business of the Company in Hong Kong 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:

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Group for each of the two financial years ended 31 December 2013;

(c) a copy of this Response Document;

(d) the letter dated 15 August 2014 from the Board as set out on pages 6 to 11 of this Response Document;

(e) the letter dated 15 August 2014 from the Independent Board Committee to the Independent Shareholders and the holder of the Options as set out on pages 12 to 13 of this Response Document;

(f) the letter dated 15 August 2014 from Platinum Securities to the Independent Board Committee as set out on pages 14 to 32 of this Response Document;

(g) the written consent from Platinum Securities referred to under the paragraph headed "Consent and qualification" in this Appendix;

(h) the material contracts referred to under the paragraph headed "Material contracts" in this Appendix; and

(i) two director's service contracts dated 7 January 2014 entered into between the Company and each of Mr. William Keith Jacobsen and Mr. Ng Wai Hung and eight director's service contracts dated 16 July 2014 entered into between the Company and each of Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan, Mr. Gui Bin, Mr. Wang Yongbin, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest referred to under the paragraph headed "Directors' service contracts and other interests" in this Appendix.