Perception Digital Holdings Limited

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

Stock Code: 1822

ANNUAL REPORT 2011

Contents

Corporate Information

Directors

Executive Directors

Dr. Lau, Jack *(Chairman and Chief Executive Officer)*
Mr. Tao, Hong Ming

Non-executive Directors

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

Independent Non-executive Directors

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

Company Secretary

Ms. Wong, Yuk Hing Juliana *(resigned on 30 April 2011)*
Mr. Lee, Rabi *(appointed on 30 April 2011)*

Compliance Officer

Dr. Lau, Jack

Authorised Representatives

Dr. Lau, Jack
Ms. Wong, Yuk Hing Juliana *(resigned on 30 April 2011)*
Mr. Lee, Rabi *(appointed on 30 April 2011)*

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Hong Kong Share Registrar

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

Website

www.perceptiondigital.com

Stock Code

01822

Principal Bankers

Shanghai Commercial Bank Limited
Hang Seng Bank Limited

Compliance Advisor

Quam Capital Limited
Room 3208, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

Auditors

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

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

21st Floor
Fortis Tower
77-79 Gloucester Road
Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Chairman's Statement

Dear shareholders,

In 2011, the profound impact of the global financial crisis lingered throughout the year, together with the weakening economies of the U.S. and Europe, the economic recovery process was vulnerable and turbulent. Although the Group had been putting effort to actively explore new customers through our supply chain management service and technologies in 2011, which enabled us to achieve an increase in revenue from product sales, due to our less concentration on rendering project development and management services and the decrease in gross margin intertwined with the weakened momentum of economic growth, the profitability of the Group decreased in the year ended 31 December 2011 as compared to 2010.

In order to mitigate the concentration risk on serving a number of limited key customers, in early 2011, we drastically restructure our internal resources and developed four operation teams, namely (S)upply Chain Management Team, (O)ther Innovative Technology Team, (A)ndroid Team and (P)referred Customers Team.

S Team – focuses on using our technology and supply chain management expertise to form partnership with various customers. During the second half of 2011, we formed a supply chain partnership with a company in the PRC and started to ship smart phones and featured phones to certain branded operators in the United States in late 2011. In addition, our Vulkano, the place shift multimedia streaming box, achieved encouraging results in 2011 and many users can now enjoy their favourite TV shows during their travel and outdoor activities. New versions of the product are under our development pipeline and we expect the momentum will continue in 2012.

O Team – during the year 2011, we are proud to introduce our innovative and remarkable product, the Golf Swing Analyser, which is able to capture more than 10,000 data points for every golf swing and transmit the data through Bluetooth to the golfer's mobile phone for analysis on a real time basis. The golfer can instantly review his/her club head speed, swing arc and face angle, which enable the golfer to improve his/her swing consistency. We have shown the prototype of this product during the Hong Kong Electronic Fairs (Autumn) in October 2011 and we saw many potential customers showed their interests in this product and gave us positive and encouraging feedbacks. We expect the Golf Swing Analyser to be launched in second quarter of 2012.

A Team – refers to our Android products, including our digital media receiver, PDXtra TV, launched in 2011 and we mainly focus on the PRC (including Hong Kong) market, where we partnered with certain branded retail stores in the PRC as our distribution channel. In view that Android technology becomes more and more popular and is widely applied in different types of consumer electronic devices with increasing share among the consumer electronic market, we will continue to explore new opportunities on this platform.

P Team – refers to our traditional business on personal portable entertainment devices with our long term key customers. We expect the business will continue to contribute stable profit to the Group in the future.

Chairman's Statement

Looking forward, we expect the lingering sovereign debt problems in Europe and the slow economic recovery of the United States will continue to pose challenges throughout the year 2012. Yet, we always believe that opportunities do exist along with challenges. We will endeavour to diversify our customer base and focus on breakthrough in technologies to develop innovative and advanced products.

On behalf of the board of directors, I would like to express our sincere gratitude to our shareholders, customers, bankers and suppliers for their continuing support; and our management and employees for their hard work and dedication throughout the year. We will stay cautious to the ever changing economic environment and adopt prudent strategy to explore new opportunities to diversify our business risk and create value for our shareholders.

Dr. Lau, Jack
Chairman

23 March 2012

General

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

Business Review

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

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

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

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

Management Discussion and Analysis

Prospects

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

S Team

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

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

A Team

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

O Team

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

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

Financial Review

Results of the Group

Turnover

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

Cost of sales

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

Gross profit and margin

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

Other income and gain

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

Research and development costs

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

Selling and distribution costs

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

General and administrative expenses

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

Other expenses, net

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

Finance costs

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

Income tax credit/expense

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

Liquidity and financial resources

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

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

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

Gearing ratio

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

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

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

Capital structure

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

Significant investments

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

Material acquisitions or disposals

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

Future plans for material investments or capital assets

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

Foreign currency exposure

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

Charges on Group's assets

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

Contingent liabilities

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

Commitments

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

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011	2010
	HK$	HK$
Within one year	**7,092,890**	574,112
In the second to fifth years, inclusive	**7,433,413**	125,620
	14,526,303	699,732

(ii) Capital commitments

The Group had the following capital commitments as at the balance sheet date:

	2011	2010
	HK$	HK$
Contracted, but not provided for leasehold improvements	**–**	718,522

EMPLOYEES AND REMUNERATION POLICY

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

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

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Lau, Jack, aged 44, is one of the founders of the Group. He is the Chairman and Chief Executive Officer of the Company. He was appointed as an executive Director on 11 September 2009. Dr. Lau is currently an adjunct associate professor at the Hong Kong University of Science and Technology (the "HKUST"). He received his Bachelor's and Master's degrees from the University of California, Berkeley in Electrical Engineering and Computer Sciences. He obtained his Ph.D. degree from HKUST in Electrical and Electronic Engineering and became the first doctoral graduate of HKUST. Afterwards, he pursued his research interest at Stanford University from 1995 to 1996 and returned to HKUST in 1996. Dr. Lau currently holds more than 10 registered patents. He has published at various leading Institute of Electrical and Electronic Engineers ("IEEE") journals and conferences. He was awarded the Top Ten Outstanding Young Person（十大傑出青年）by Hong Kong Junior Chamber in 2000; the Young Industrialist Award of Hong Kong（香港青年工業家獎）by the Hong Kong Young Industrialists Council in 2005; and the World Outstanding Young Chinese Entrepreneur（世界傑出青年華商）by the World Federation of Chinese Entrepreneurs Organization, Ernst & Young Entrepreneur Of The Year China by Ernst & Young in 2009 and Directors of the Year Awards by The Hong Kong Institute of Directors. Dr. Lau is currently a director of SemiLEDs Corporation (stock code: LEDS), a company listed on Nasdaq Stock Market.

Mr. Tao, Hong Ming, aged 44, was appointed as an executive Director on 13 October 2010. He graduated from the Hong Kong Polytechnic University in 1990 with a Bachelor's degree in Electronic Engineering. He has over 19 years of working experience in engineering, sales and marketing, project management and operation in electronics business. He was with our Group from July 2001 to March 2007 before he left to join Shenzhen Sangfei Consumer Communications Co., Ltd. as director of business line management in August 2007. He later rejoined our Group in June 2008. He previously worked as a business development manager at VTech Communications Limited responsible for business development and project management of contract manufacturing business. Mr. Tao is also a Senior Vice President of the Group and is responsible for sales and marketing, project management and operation.

Non-executive Directors

Prof. Cheng, Roger Shu Kwan, aged 47, is one of the founders of the Group. He was appointed as a non-executive Director on 18 September 2009. He is currently a professor in the Electronic and Computer Engineering Department of HKUST. He was an assistant professor in the Electrical and Computer Engineering Department of University of Colorado at Boulder from 1991 to 1995, before he joined HKUST in June 1995. Prof. Cheng received his Bachelor's degree in Science from Drexel University, Philadelphia, Pennsylvania, in 1987, and his Ph.D. degree from Princeton University, Princeton, New Jersey, in 1991, both in Electrical Engineering. Prof. Cheng is currently an editor for the IEEE Transactions and Wireless Communications. He has also served as a consultant for industrial projects sponsored by various communication system and IC companies in Hong Kong, US and China.

Biographical Details of Directors and Senior Management

Prof. Tsui, Chi Ying, aged 52, was one of the founders of the Group and appointed as an executive Director on 18 September 2009. He was re-designated as a non-executive Director on 10 March 2010. He received his Bachelor's degree in Electrical Engineering from the University of Hong Kong in 1982 and Doctorate degree in Computer Engineering from the University of Southern California in 1994. He joined the Electrical and Electronic Engineering Department of HKUST in 1994 and is currently an associate professor in the department. Prof. Tsui has received various awards including Best Paper awards from IEEE Transactions on VLSI Systems, IEEE International Symposium on Circuits and Systems and IEEE International Symposium on Low Power Electronics and Design. He has served on the technical program committees of many international conferences and symposiums, including Design Automation Conference, International Symposium on Low Power Electronics and Design, Asia and South Pacific Design Automation Conference and the IEEE, VLSI Symposium. He is the holder of 7 registered patents in the US.

Independent Non-executive Directors

Dr. Lam Lee, Kiu Yue Alice Piera, aged 72, was appointed as an independent non-executive Director on 18 September 2009. Dr. Lam has over 18 years of experience in banking and finance. She joined Hang Seng Bank Limited (stock code: 11) in 1978 and was appointed as a director in 1989, the general manager from 1990 to 1993, the managing director and deputy chief executive from 1994 to 1996. From 1999 to 2007, Dr. Lam worked as the Chairman of the University Grants Committee. She was an independent non-executive director of iMerchants Limited (stock code: 8009) from March 2000 to July 2005 and the vice-chairman of the Chinese University of Hong Kong from 1997 to 1998. She graduated from the University of Hong Kong in 1963 with a Bachelor of Arts degree. She attended the Solicitors' Professional Course and attained a Solicitors' Practising Certificate in 1978. In 1992, Dr. Lam was awarded an honorary Doctor of Laws degree by the Chinese University of Hong Kong. In 2003, Dr. Lam was honored to be awarded the Gold Bauhinia Star by the Hong Kong government in recognition of her service to the Hong Kong community. In 2011, Dr. Lam was awarded an honorary Doctor of Laws degree by the Lingnan University and an honorary Doctor of Social Science degree by the Open University of Hong Kong.

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

Prof. Chin has served on numerous public bodies including the Hong Kong Examinations and Assessment Authority, Employees Retraining Board, Quality Education Fund, Hong Kong Association for Computer Education, Hospital Authority, Applied Research Council, Innovation and Technology Commission, Cyberport Board and Education Bureau. He is currently a member of the University Grants Committee, the Steering Committee on Innovation and Technology and the Commission on Strategic Development. He served on the Board of Nano and Advanced Materials Institute and Logistics and Supply Chain Management Institute, and is on the Board Chairman of HKEduCity. Since 2005, he has been the Chairman of the Research Grants Council.

Mr. Shu, Wa Tung Laurence, aged 39, was appointed as an independent non-executive Director on 18 September 2009. He is currently an independent non-executive Director of Greater China Holdings Limited (stock code: 431) and HL Technology Group Limited (stock code: 1087). Mr. Shu graduated from Deakin University in Australia in 1994 with a Bachelor's degree in Business majoring in Accounting. He is a Certified Public Accountant of the HKICPA and a Certified Practising Accountant of CPA Australia. He has over 15 years of experience in audit, corporate finance and corporate advisory services. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1994 and later became a manager of the Reorganization Services Group and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and the company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the company's financial management function. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited（熔盛重工控股有限公司）. He is currently the chief financial officer of Petro-King International Company Limited（百勤國際有限公司）, overseeing the company's financial management function.

Senior Management

Mr. Cheng, Lap Hing, Martin, aged 43, our Director of project management, joined our Group in September 2001 as a Product Engineering Manager. He was promoted to his current position in January 2011. Prior to joining our Group, Mr. Cheng was an Engineering Design Manager from March 1999 to September 2001 at Vtech Communications Limited, responsible for production support, customer support and new product development. Prior to that, he was a Manager of R&D, responsible for setting up a research and development department in the PRC, from April 1997 to March 1999 at Surface Mount Technology International Limited, where he started his career in April 1991. Mr. Cheng graduated from the Hong Kong Polytechnic University in November 1991 with a Higher Diploma in Electronic Engineering, from the University of London in 1999 with a Bachelor of Science (Hons) degree in Computing and Information System, and from the Open University of Hong Kong in 2008 with a Bachelor of Science (Hons) degree in Electronics.

Mr. Choi, Koon Yin, Felix, aged 37, is our Director (Research and Development). Mr. Choi joined our Group in August 1999 as an engineer and he is one of the founding staff. He was responsible for software research and development. The software products include embedded device, desktop program and internal web-based system. During the past 12 years, he was the Software Architect on various projects, including some of our largest customers. He also directed the product failure analysis and worked with the team on continuous improvements. His effort was recognised and he was promoted to Director (Research and Development) in January 2011. Mr. Choi graduated from HKUST with a Bachelor's degree in Computer Engineering in 1997. He continued his studies upon graduation in Electrical and Electronic Engineering at HKUST, and obtained his Master of Philosophy degree in 2000.

Mr. Fung, Fuk Sheung, Edward, aged 40, our Director (R&D Hardware), joined our Group in August 2001 as a Senior Electronic Engineer. He was promoted to his current position in January 2011. Prior to joining our Group, Mr. Fung was an Engineer from February 1998 to July 2001 at Micom Tech Limited and was responsible for battery powered portable embedded system product development. Prior to that, he worked for Astec Custom Power (Hong Kong) Limited and was responsible for switch mode power supply design and approbation. Mr. Fung has over 13 years of working experience in portable low power hardware design, battery power management, product development and approbation and technical lead. Mr. Fung graduated from the Hong Kong Polytechnic University in July 1995 with a Higher Diploma in Electronic Engineering and in July 1997 with a BEng (Hons) in Electronic Engineering, and from The Chinese University of Hong Kong in 2000 with a Master of Science degree in Electronic Engineering.

Biographical Details of Directors and Senior Management

Mr. Ho, Sai Hung, Francis, aged 47, is our Industrial Design Manager. Mr. Ho graduated from the Hong Kong Polytechnic University in 1989 with a Bachelor of Arts degree in Industrial Design. Mr. Ho has worked for Wah Ming Optical Manufacturing Limited as a designer from November 1989 to October 1990, and for Team Concepts Electronics Limited between April 1991 and June 1992 and was responsible for concept creation and product design. Mr. Ho served as a Free Lance Industrial Designer in Jetton Industrial Limited from June 1992 to April 1993, and had worked for Group Sense Limited during the period between May 1993 to October 1995, and from April 1996 to May 1998 was responsible for idea generation, product design and design project development. Before joining our Group in October 2004, Mr. Ho was the Design Manager of Ewig Industries Co., Ltd. between May 1999 and November 1999. Mr. Ho then joined Artek Electrical Appliances Company Limited as a Product Designer from May 2001 to March 2002. Mr. Ho has over 21 years' experience of concept creation, product design and design management in consumer electronics industry.

Ms. Ip, Wing Yee, Winnie, aged 50, is our Financial Controller. She joined the Group in January 2011. Ms Ip has over 20 years' experience in corporate planning, group consolidation, financial & management reporting, treasury management and corporate system enhancements/changeovers in various industries, gained in Hutchison Ports Holdings Ltd, China Resources Enterprise Ltd and other local listed groups. She graduated from the Hong Kong Polytechnic University in 1984 with a Professional Diploma in Accountancy, joined KPMG and has been an associate member of HKICPA since 1989 and a fellow member of the Association of Certified Public Accountants since 1993. She also obtained Master degrees in Business Administration and Applied Finance respectively from the University of Durham, United Kingdom in 1996 and the University of Western Sydney, Australia in 1999. Prior to joining the Group, she has worked as the Financial Controller of Wah Shing Toys Company Limited, a major subsidiary of the South China (China) Limited (Stock code: 413).

Mr. Kow, Ping, aged 42, is our Vice President of Strategic Accounts. After graduating with a Bachelor of Applied Science degree in Computer Technology from Nanyang Technological University (Singapore) in 1993, he has worked in various companies on both sides of the Pacific. Prior to joining our Group in July 2006 as the Vice President of Strategic Accounts, Mr. Kow was the Country Manager of Cornice Inc. supporting Cornice Inc.'s customers in China, Hong Kong and South East Asia who build consumer electronic devices with embedded hard disk drives. Before that, in March 2000, he had co-founded WebPro Limited in Hong Kong with venture funds managed by Walden Investments. Mr. Kow had earlier worked in the US for various companies such as VIA-Cyrix Corporation (which later became part of National Semiconductor Corporation) from June 1997 to January 2000, where he was the Marketing Manager responsible for the world wide marketing for x86 processors and also at the Texas Instruments from June 1993 to June 1997, where he handled strategic marketing responsible for the marketing of products such as x86 processors and wireless communications products. Given his accomplishments and work ethics, Mr. Kow was seconded to the US organisation of Texas Instruments as an expatriate, managing a variety of major business and marketing program involving the sales and marketing of 486 CPU microprocessors to the Asia market place from May 1996 to June 1997.

Biographical Details of Directors and Senior Management

Mr. Lai, Sai Kit, Dennis, aged 36, is our Director of project development division. Mr. Lai graduated from the HKUST with a Bachelor's degree in Electronic Engineering in 1997, and obtained his Master of Philosophy degree in Electrical and Electronic Engineering from HKUST in 1999. Mr. Lai had worked as our Specialist of Digital Signal Processing Engineering from October 1999 to March 2003. From April 2003 to June 2004, Mr. Lai had worked as a project leader for a listed company in Japan, TEAC Audio Co. Ltd. Mr. Lai rejoined our Group as our Design Service Manager in December 2004. Mr. Lai has over 10 years of experience in technical development, technical management and project management. Mr. Lai has assisted in the development of the US patents "Method of automatically selecting multimedia files for transfer between two storage mediums," and "Digital multimedia jukebox". Mr. Lai was awarded a Chapter Award in an IEEE conference of wireless technology, VTC2000-Spring.

Mr. Lee, Rabi, aged 38, is our Finance Director and Company Secretary, and is responsible for supervising the corporate finance exercises of our Group. He joined our Group as our Senior Manager of the Corporate Finance Department in December 2008. He graduated from City University of Hong Kong with a Bachelor's degree in Accountancy in November 1997 and has been a member of the HKICPA since January 2001. Prior to joining our Group, he worked in Ernst & Young from September 1997 to November 2008 where he acquired auditing experience in various industries, including property development, marine transportation and manufacturing. He was a Senior Manager when he left Ernst & Young in November 2008.

Mr. Leung, Yuk Hang, aged 37, was appointed as our Assistant Director in February 2009. He oversees our MRP/SAP system which facilitate our supply chain management. Prior to becoming Assistant Director, Mr. Leung was our Operation Manager who oversaw our entire mainland China operation between April 2006 and February 2008. In that role, he directed work on the significant expansion of our mainland China operation and our business process optimisation for our ISO 9001 and ISO 14001 certification. Mr. Leung served as our Project Manager before April 2006 and was responsible for compiling the project management methodology of the company. Mr. Leung graduated from HKUST in 2000 with a Master of Philosophy degree in Electrical and Electronic Engineering.

Mr. Ng, Kin Ping, Anvil, aged 36, is our Director of project management. He is responsible for technical development and project management. Mr. Ng joined our Group in August 1999 as an Engineer and he is one of our founding staff. Mr. Ng started his career on system design, and focused on project management in later stage. He was promoted to Senior Project Manager in September 2006 and led the work on technical, project management. Under his leadership, our Company optimised the work flow for project management flow. With over 10 years of experience in project management, Mr. Ng helped our Group develop a number of new products for our major customers. His effort was recognised and was promoted to the position of Assistant Director in February 2009. Mr. Ng graduated from HKUST with a Bachelor's degree in Electronic Engineering in 1997. He continued to study at HKUST upon graduation and obtained his Master of Philosophy degree in Electrical and Electronic Engineering in 1999.

Biographical Details of Directors and Senior Management

Mr. Wong, Kin Chun, Steven, aged 57, is our Operation Director. He joined our Group in October 2008 as our Senior Purchasing Manager. Mr. Wong has over 20 years of experience in manufacturing operations, business and product development and has strong implementation knowledge in logistics and supply chain management. He is experienced in developing and implementing material requirements planning ("MRP") system. Prior to joining our group, Mr. Wong worked at Binatone Electronics International Limited,and NSM which is Join venture company with National Simi-Conductor, he have been engaged in the area of product resarch and marketing of innovative design and manufacturing of communication devices, as the Manufacturing Director from September 1998 to August 2007. Prior to that he served as a Manager in the EDP, Materials and Strategic Business Development departments, at S. Megga Telecommunications Limited, a manufacturer of telecommunication products from April 1988 to September 1995. Mr. Wong graduated from York University in June 1986 with a bachelors degree in Computer Sciences.

Ms. Wong, Yin Mei, Venus, aged 33, our Director of Marketing, is responsible for sales and marketing activities, customer service and product development. She joined our Group in November 2005 as Project Marketing Manager. Ms. Wong has about 10 years of working experience in both technical marketing and management in the electronics industry. Before joining our Group, Ms. Wong was a marketing assistant in JD Rising Company. She was subsequently employed by Beijing Design & Creation (Hong Kong) Co. Ltd. in May 2002, responsible for technical marketing, IP licensing, design service and business development. She was the Marketing Manager when she left Beijing Design & Creation (Hong Kong) Company Limited. Ms. Wong graduated from The University of Hong Kong with a Bachelor Degree in Management Studies and from HKUST with a Master of Science in Engineering Enterprise Management.

Mr. Yip, Chun Kwan, aged 35, is our Program Director of Vendor Management. Mr. Yip graduated from HKUST with a Bachelor's degree in Computer Engineering in 1999. He continued to study at HKUST upon graduation and obtained his Master of Philosophy degree in Electrical and Electronic Engineering in 2001. He obtained the Master of Philosophy degree in Industrial Engineering and Engineering Management in 2008. He joined our Group in July 2006 as R&D manager. Mr. Yip has more than 11 years of working experience in both technical and project management in the electronics industry. Before joining our Group, Mr. Yip was the chief technical officer in Integrated Microdisplays Limited.

Mr. Yu, Wai Keung, Nicky, aged 44, our Senior Director OEM Program Management, joined our Group in October 2010. Mr. Yu graduated from the University of Sunderland in 1991 with a Bachelor Degree in Electrical and Electronic Engineering and has the Master of Business Administration from Hong Kong Baptist University in 2005. Mr. Yu had worked for VTech Communications Ltd. as a development engineer from February 1992 to June 1994, and for Surface Mount Technology Ltd between June 1994 to June 1997 and worked as Marketing and Material Manager respectively in OEM business. Mr. Yu served as a Material Manager in Kaifa Technology (HK) Ltd. from June 1997 to February 1998 in Floppy Disk Drive business. Before joining our Group, Mr. Yu was the Senior Program Manager of VTech Communications Ltd. between February 1998 to September 2010 and responsible for project management in contract manufacturing business. Mr. Yu has over 19 years working experience in engineering, material, marketing and project management in electronic business.

The Board is pleased to present this corporate governance report for the year ended 31 December 2011. This report highlights the key corporate governance practices of the Company.

Corporate Governance Practices

The Company is committed to achieving high standards of corporate governance to safeguard the interests of its shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Throughout the period from 1 January 2011 to 31 December 2011, the Company had complied with the code provisions in the CG Code with the exception of the code provision A.2.1. Details of such deviation will be explained below.

Board of Directors

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

The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. During the year 2011, the Board held four meetings.

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

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

Each director of the Company has been appointed on the strength of his/her caliber, experience and stature, as well as potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring board approval were also arranged by means of circulation of written resolutions.

In compliance with Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed sufficient number of independent non-executive Directors (the "INEDs") with at least one of them having appropriate professional qualifications or accounting or related financial management expertise. The INEDs, together with the executive Directors, ensure that the Board prepares its financial and other mandatory reports in strict compliance with the relevant standards and that appropriate systems are in place to protect the interests of the Company and its shareholders. The Board has received an annual confirmation of independence from each of the INEDs and believes that their independence is in compliance with the Listing Rules as at the date of this report.

The biographical details of the Directors are set out in the section "Biographical Details of Directors and Senior Management" in this annual report. Their relationships are as follows: Dr. Lau, Jack is the spouse of Ms. Loh, Jiah Yee Katherine, who is one of the controlling shareholders of the Company as defined in the prospectus of the Company dated 4 December 2009 (the "Controlling Shareholders"). Prof. Cheng, Roger Shu Kwan is the spouse of Ms. Le Cheng, who is one of the Controlling Shareholders. Prof. Tsui, Chi Ying is the spouse of Ms. Cheung, Wai Hing, Barbara, who is also one of the Controlling Shareholders.

Chairman and Chief Executive Officer

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

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

Non-executive Directors

The term of appointment of each non-executive Director is for a period of three years, 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.

Securities Transactions by Directors

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

Committees

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

Remuneration Committee

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

The primary duties of the remuneration committee are formulating remuneration policies, determining the specific remuneration packages of executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors. During the year ended 31 December 2011, the remuneration committee reviewed and made recommendation on the remuneration packages of the existing Directors, the newly appointed Directors and the senior management.

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

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

Corporate Governance Report

Nomination Committee

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

The primary duties of the nomination committee are reviewing the structure, size and composition of the Board, formulating relevant procedures for nomination of directors, identifying qualified individuals to become members of the Board and making recommendation to the Board on the appointment or re-appointment of directors. During the year ended 31 December 2011, the nomination committee reviewed the composition of the Board, the profiles of the candidates to be appointed as new Directors and made recommendation to the Board.

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

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

Audit committee

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

During the year ended 31 December 2011, the audit committee reviewed the internal control system, as well as the first quarterly, interim and annual results of the Group, which, in the opinion of the audit committee, were prepared in compliance with the applicable accounting standards and the Rules Governing the Listing of Securities on GEM of the Stock Exchange/Listing Rules.

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

Audit Committee	Attendance
Mr. Shu, Wa Tung Laurence *(Chairman)*	3/3
Dr. Lam Lee, Kiu Yue Alice Piera	3/3
Prof. Chin, Tai Hong Roland	3/3

Directors' Responsibility for Financial Statements

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

Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2011 is set out in the section "Independent Auditors' Report" of this annual report.

The Group's external auditors provided the following services to the Group for the year ended 31 December 2011:

	HK$
Audit services	1,380,000
Non-audit services:	
Taxation services	81,000
Agreed upon procedures on continuing connected transactions	15,000
	1,476,000

Internal Control

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

The audit committee reviewed the overall effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2011. The Board will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

Investor Relations

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

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

Report of the Directors

The directors of the Company (the "Directors") are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. The were no significant changes in the nature of the Group's principal activities during the year.

Change of principal business address

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

Results and Dividends

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 111.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK0.5 cents per ordinary share).

Closure of Register of Members

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

Business Objectives and Use of Proceeds

Comparison of business objectives with actual business progress

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

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

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

Use of Proceeds

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

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

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

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

Sufficiency of Public Float

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

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 27 to the financial statements.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Pre-emptive Rights

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2011, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of Cayman Islands' legislation, amounted to HK$58.8 million (2010: HK$54.0 million).

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$1,000,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 92.2% of the total sales for the year and sales to the largest customer included therein amounted to 68.4%. Purchases from the Group's five largest suppliers accounted for 67.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30.4%.

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

Directors

The Directors during the year were:

Executive directors:

Dr. Lau, Jack
Mr. Tao, Hong Ming

Non-Executive directors:

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

Independent Non-Executive directors:

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

In accordance with articles 83 and 84 of the Company's articles of association, Dr. Lau, Jack, Prof. Tsui Chi Ying and Mr. Shu, Wa Yung Laurence will retire from office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

Confirmation of independence

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

Biographical details of directors and senior management

The biographical details of the Directors and the senior management of the Group are set out on pages 13 to 18 of this annual report. Directors' positions held with the subsidiaries of the Company are as follows:

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

Directors' Service Contracts

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

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

Contract of Significance

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

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

Competing Interests

For the year ended 31 December 2011, the Directors were not aware of any business or interest of the Directors, the controlling shareholder and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

Emolument Policy

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

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

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

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive in the share capital of the Company and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules adopted by the Company, were as follows:

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

	Capacity/Nature of Interest				
Name of Director	Personal interest	Corporate interest	Share options	Total	Percentage of the Company's issued share capital
Dr. Lau	182,566,037 (Note a)	–	–	182,566,037	29.33%
Mr. Tao Hong Ming ("Mr. Tao")	300,000	–	1,000,000	1,300,000	0.21%
Prof. Cheng	–	2,976,655 (Note b)	–	2,976,655	0.48%
Prof. Tsui	–	11,903,210 (Note c)	–	11,903,210	1.91%
	182,866,037	14,879,865	1,000,000	198,745,902	31.93%

Notes:

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

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

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

Save as disclosed above, as at 31 December 2011, none of the directors or chief executive of the Company or their respective associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code adopted by the Company.

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

As at 31 December 2011, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, being 5% or more of the total issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in the Shares:

Name of Substantial Shareholders	Capacity/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Swanland	Beneficial owner	125,592,340	20.17%
Masteray	Beneficial owner (Note a)	53,828,697	8.65%
	Interest of controlled corporation	125,592,340	20.17%
		179,421,037	28.82%
Sea Progress	Beneficial Owner (Note b)	179,421,037	28.82%
Ms. Loh	Interest of controlled corporation (Note c)	179,421,037	28.82%
	Beneficial owner	3,145,000	0.51%
		182,566,037	29.33%
Manyi Holdings Limited ("Manyi")	Beneficial owner	140,482,433	22.57%
Dr. Wu Po Him, Philip ("Dr. Wu")	Interest of controlled corporation (Note d)	140,482,433	22.57%
	Beneficial owner	1,599,142	0.25%
		142,081,575	22.82%
Notable Success Investments Limited ("Notable Success")	Beneficial owner (Note e)	54,196,943	8.71%
Successful Link Limited ("Successful Link")	Interest of controlled corporation (Note e)	54,196,943	8.71%
Paulo Lam ("Mr. Lam")	Interest of controlled corporation	54,196,943	8.71%

Notes:

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, no person (other than the Directors whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY" above) had registered an interest or a short position in the Shares or underlying shares of the Company that was required to be recorded in the register of the Company pursuant to section 336 of the SFO.

Share Option Scheme

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

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

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

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

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

Details of the Options outstanding as at 31 December 2011 under the Scheme are as follows:

	Number of share options							
Name or category of participant	At 1 Jan 2011	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 31 Dec 2011	Exercise Price per share	Date of grant	Exercise Period
Director								
Mr. Tao	1,000,000	–	–	–	1,000,000	HK$0.7	26-3-2010	(a)
Continuous contract employees	12,280,000	–	–	(880,000)	11,400,000	HK$0.7	26-3-2010	(a)
Other participate								
Consultants	1,600,000	–	–	–	1,600,000	HK$0.7	26-3-2010	(a)
A consultant	–	1,000,000	–	–	1,000,000	HK$0.348	31-8-2011	(b)
	14,880,000	1,000,000	–	(880,000)	15,000,000			

Notes:

(a) Of the 15,000,000 share options, 3,750,000 share options are exercisable during the period from 26 March 2011 to 25 March 2012, 3,750,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013, and 7,500,000 share options will be exercisable during the period from 26 March 2013 to 25 March 2014. The closing price of the shares of the Company immediately before the date on which these share options were granted was HK$0.67 per share.

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

Further details of the Scheme are set out in note 27(a) to the financial statements.

Share Options under a Supply Chain Management Agreement

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

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

Further details of the Upfront Option and Performance Option are set out in note 27(b) to the financial statements.

Arrangements to Purchase Shares or Debentures

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

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 23 of this annual report.

Continuing Connected Transactions

On 28 January 2011, Perception Digital Limited ("PDL"), an indirect wholly-owned subsidiary of the Company, entered into (1) a tenancy agreement with Welleader Group Limited ("Welleader"), a company wholly-owned by Ms. Loh, the spouse of director Dr. Lau, an executive director and the Chief Executive Officer of the Company, as the landlord for the leasing of an office premises located at 18th Floor of Fortis Tower, No. 77-79 Gloucester Road, Hong Kong with gross floor area of 3,550 sq. ft.; and (2) a sublease agreement with Comose Holdings Limited ("Comose"), a company owed as to 60% by Dr. Wu, a former independent non-executive director of the Company, as the lessor and Welleader as the sublessor for the leasing of an office premises located at 21st Floor of Fortis Tower, No. 77-79 Gloucester Road, Hong Kong with gross floor area of 6,350 sq. ft. (collectively, the "Agreements"). The aforementioned office premises are used by the Company and certain of its subsidiaries for office use.

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

The INEDs have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties. Further details of the leases are set out in an announcement and a supplemental announcement of the Company dated 26 January 2011 and 31 January 2011, respectively (collectively, the "Announcements").

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

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

Auditors

The financial statements for the year ended 31 December 2011 have been audited by Ernst & Young, the auditors of the Company. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting. There has been no change in the auditors of the Company in any of the preceding years since the Listing.

On behalf of the Board

Dr. Lau, Jack
Chairman

Hong Kong, 23 March 2012

Independent Auditors' Report

ERNST & YOUNG
安永

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

We have audited the consolidated financial statements of Perception Digital Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
23 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$	2010 HK$
REVENUE	5	**533,406,703**	497,683,452
Cost of sales		**(486,958,388)**	(423,252,233)
Gross profit		**46,448,315**	74,431,219
Other income and gain	5	**8,748,028**	673,347
Research and development costs		**(8,321,705)**	(7,357,953)
Selling and distribution costs		**(13,923,258)**	(10,338,614)
General and administrative expenses		**(45,467,014)**	(27,776,524)
Other expenses, net		**(7,435,420)**	(144,036)
Finance costs	6	**(5,434,911)**	(2,591,923)
PROFIT/(LOSS) BEFORE TAX	7	**(25,385,965)**	26,895,516
Income tax credit/(expense)	10	**3,397,094**	(3,871,559)
PROFIT/(LOSS) FOR THE YEAR		**(21,988,871)**	23,023,957
Attributable to:			
Owners of the parent	11	**(21,988,871)**	23,023,957
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13	**HK cents**	HK cents
Basic and diluted		**(3.5)**	3.7

Details of the dividend proposed for the year ended 31 December 2010 are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

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

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$	2010 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	14	**9,229,064**	4,651,187
Deferred development costs	15	**35,427,233**	22,190,769
Long term deposits	19	**2,614,748**	566,458
Deferred tax assets	25	**2,406,665**	139,734
Total non-current assets		**49,677,710**	27,548,148
CURRENT ASSETS			
Inventories	17	**46,512,587**	36,491,318
Trade receivables	18	**153,744,297**	188,382,008
Prepayments, deposits and other receivables	19	**67,043,273**	14,520,493
Tax recoverable		**1,042,526**	–
Pledged deposits	20	**16,960,903**	9,183,376
Cash and cash equivalents	20	**40,365,986**	39,497,771
Total current assets		**325,669,572**	288,074,966
CURRENT LIABILITIES			
Trade payables	21	**167,896,256**	125,287,874
Other payables and accruals	22	**27,391,762**	10,010,218
Interest-bearing bank borrowings	23	**70,182,220**	47,616,385
Tax payable		**833,767**	2,030,352
Provision	24	**1,634,537**	891,142
Total current liabilities		**267,938,542**	185,835,971
NET CURRENT ASSETS		**57,731,030**	102,238,995
TOTAL ASSETS LESS CURRENT LIABILITIES		**107,408,740**	129,787,143

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$	2010 HK$
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	23	**7,393,825**	7,766,604
Deferred tax liabilities	25	**1,397,528**	2,424,120
Total non-current liabilities		**8,791,353**	10,190,724
Net assets		**98,617,387**	119,596,419
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	**62,250,000**	62,250,000
Reserves	28(a)	**36,367,387**	57,346,419
Total equity		**98,617,387**	119,596,419

Lau, Jack
Director

Tao, Hong Ming
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Issued capital HK$	Share premium account HK$	Capital reserve HK$ (note 28(a))	Share option reserve HK$ (note 27)	Exchange fluctuation reserve HK$	Accumulated losses HK$	Total equity HK$
At 1 January 2010		60,000,000	30,057,764	50,048,276	–	1,225,171	(59,078,310)	82,252,901
Profit for the year		–	–	–	–	–	23,023,957	23,023,957
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations		–	–	–	–	315,223	–	315,223
Total comprehensive income for the year		–	–	–	–	315,223	23,023,957	23,339,180
Issue of new shares upon exercise of the Over-allotment Option	26	2,250,000	13,950,000	–	–	–	–	16,200,000
Share issue costs		–	(517,457)	–	–	–	–	(517,457)
Equity-settled share option arrangements	27	–	–	–	1,434,295	–	–	1,434,295
Final 2009 dividend declared		–	–	(3,112,500)	–	–	–	(3,112,500)
At 31 December 2010 and at 1 January 2011		**62,250,000**	**43,490,307**	**46,935,776**	**1,434,295**	**1,540,394**	**(36,054,353)**	**119,596,419**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(21,988,871)**	**(21,988,871)**
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**687,630**	**–**	**687,630**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**–**	**687,630**	**(21,988,871)**	**(21,301,241)**
Equity-settled share option arrangements	27	**–**	**–**	**–**	**3,434,709**	**–**	**–**	**3,434,709**
Transfer of share option reserve upon the forfeiture of share options		**–**	**–**	**–**	**(37,851)**	**–**	**37,851**	**–**
Final 2010 dividend declared	12	**–**	**–**	**(3,112,500)**	**–**	**–**	**–**	**(3,112,500)**
At 31 December 2011		**62,250,000**	**43,490,307***	**43,823,276***	**4,831,153***	**2,228,024***	**(58,005,373)***	**98,617,387**

* These reserve accounts comprise the consolidated reserves of HK$36,367,387 (2010: HK$57,346,419) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$	2010 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(25,385,965)**	26,895,516
Adjustments for:			
Finance costs	6	**5,434,911**	2,591,923
Interest income	5	**(7,076,731)**	(23,968)
Depreciation	7	**3,563,335**	3,102,021
Amortisation of deferred development costs	7	**11,897,552**	5,877,644
Impairment of items of property, plant and equipment	7	**–**	23,849
Impairment of deferred development costs	7	**2,696,891**	–
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**(12,509)**	9,550
Impairment of trade receivables	7	**4,484,428**	116,250
Write-back of provision for impairment of trade receivables	7	**–**	(5,613)
Write-down of inventories to net realisable value, net	7	**1,116,464**	694,563
Loss on transfer arising from factoring of trade receivables	7	**254,101**	–
Equity-settled share option expense	27	**3,434,709**	1,434,295
		407,186	40,716,030
Increase in inventories		**(11,128,971)**	(27,287,521)
Decrease in trade receivables		**30,331,469**	145,248,174
Increase in prepayments, deposits and other receivables		**(46,961,049)**	(4,154,561)
Increase/(decrease) in trade payables		**42,607,851**	(167,785,651)
Increase/(decrease) in other payables and accruals		**16,862,529**	(3,159,972)
Increase/(decrease) in provision		**743,395**	(472,221)
Cash generated from/(used in) operations		**32,862,410**	(16,895,722)
Hong Kong profits tax paid		**(2,224,193)**	(398)
Net cash flows from/(used in) operating activities		**30,638,217**	(16,896,120)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$	2010 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deposits for purchase of items of property, plant and equipment		**(872,119)**	(344,963)
Purchases of items of property, plant and equipment		**(8,006,051)**	(2,909,074)
Proceeds from disposal of items of property, plant and equipment		**463,725**	9,070
Additions to deferred development costs		**(27,505,712)**	(20,257,009)
Increase in pledged deposits		**(7,777,527)**	(8,326,726)
Bank interest received		**97,598**	23,968
Net cash flows used in investing activities		**(43,600,086)**	(31,804,734)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	**–**	16,200,000
Share issue costs	26	**–**	(517,457)
New bank loans		**263,452,941**	143,970,173
Repayment of bank loans		**(241,259,885)**	(128,854,760)
Dividend paid		**(3,112,500)**	(3,112,500)
Interest and bank charges paid		**(5,272,421)**	(2,591,923)
Net cash flows from financing activities		**13,808,135**	25,093,533
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**846,266**	(23,607,321)
Cash and cash equivalents at beginning of year		**39,497,771**	63,056,902
Effect of foreign exchange rate changes, net		**21,949**	48,190
CASH AND CASH EQUIVALENTS AT END OF YEAR		**40,365,986**	39,497,771
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**40,365,986**	39,497,771

Statement of Financial Position

31 December 2011

	Notes	2011 HK$	2010 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**92,178,770**	88,336,850
CURRENT ASSETS			
Prepayments	19	**2,042**	115,017
Cash and cash equivalents	20	**29,311,226**	28,387,185
Total current assets		**29,313,268**	28,502,202
CURRENT LIABILITIES			
Other payables and accruals	22	**479,775**	555,515
NET CURRENT ASSETS		**28,833,493**	27,946,687
Net assets		**121,012,263**	116,283,537
EQUITY			
Issued capital	26	**62,250,000**	62,250,000
Reserves	28(b)	**58,762,263**	54,033,537
Total equity		**121,012,263**	116,283,537

Lau, Jack
Director

Tao, Hong Ming
Director

1. Corporate Information

Perception Digital Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 21st Floor, Fortis Tower, 77-79 Gloucester Road, Wanchai, Hong Kong.

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

2.1 Basis of Preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

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

2.2 Changes in Accounting Policy and Disclosures

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

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

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

2.2 Changes in Accounting Policy and Disclosures (continued)

The principal effects of adopting these HKFRSs are as follows:

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

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 32 to the consolidated financial statements.

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

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's 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, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	25%
Machinery and equipment	25%
Leasehold improvements	Over the shorter of the lease terms and 25%
Toolings	50%
Motor vehicles	25%

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

2.4 Summary of Significant Accounting Policies (continued)

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 as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding four years, commencing from the date when the products are put into commercial production or when the intangible assets are available for use.

Investments and other financial assets

Initial recognition and measurement

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

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.

The Group's financial assets include trade receivables, cash and cash equivalents, pledged deposits, and financial assets included in prepayments, deposits and other receivables.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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 is included in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, and interest-bearing bank borrowings.

Subsequent measurement of loans and borrowings

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

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

2.4 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of Significant Accounting Policies (continued)

Government grants

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Sale and subsequent purchase of inventories with the same counterparty that are entered into in contemplation of one another are considered to be a single non-monetary transaction. As such, revenue is not recognised for sale of inventories to the counterparty under such type of transaction;

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

(c) royalty income, when the relevant goods are sold; 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 through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 Summary of Significant Accounting Policies (continued)

Share-based payment transactions

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 payment transactions, whereby employees/consultants render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, 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/(loss) per share.

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following period. An accrual is made at the end of each reporting period for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a specific percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rental payables under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

The Company's functional currency is the United States dollar. The Company has adopted the Hong Kong dollar as its presentation currency, as the principal place of business of the Group's principal operating entities is Hong Kong and, in the opinion of the directors, it is more suitable to present these financial statements in Hong Kong dollars as most of the users of the financial statements are located in Hong Kong. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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 ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of such an entity, the component of other comprehensive income relating to that particular entity is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Group's subsidiaries of which their functional currencies are currencies other than the Hong Kong dollar are translated into the presentation currency of the Company at the exchange rates 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.

2.4 Summary of Significant Accounting Policies (continued)

Dividends

Final dividends proposed by the directors after the end of the reporting period are not recognised as a liability at the end of the reporting period. When these dividends have been approved by the shareholders and declared in a general meeting, they are recognised as a liability.

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 the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of each entity of the Group, judgement is required to determine and consider the currency that mainly influences sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional currency of each entity of the Group is determined based on management's assessment of the primary economic environment in which the entities operate. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Development costs

Development costs are capitalised and deferred in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Initial capitalisation of costs is based on management's judgement that the Group can demonstrate the technological and economical feasibility of completing the intangible asset so that it will be available for use or sale, usually when a product development project has reached a defined milestone according to an established project management model.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

The Group maintains an allowance for estimated impairment of receivables arising from the inability of its debtors to make the required payments. The Group makes its estimates based on, inter alia, the ageing of its receivable balances, debtors' creditworthiness, past repayment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets with finite useful lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the tax losses can be utilised. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the taxable profits of the entities in which the losses arose. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs as set out in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make significant assumptions and estimates regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated economic useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment to be two to four years or over the shorter of the lease terms and four years for leasehold improvements. Changes in the expected level of usage, technological developments and/or the period over which future economic benefits are generated could impact the economic useful lives of the assets and, therefore, future depreciation charges could be revised.

Useful lives of deferred development costs

Management determines the estimated useful lives of the Group's deferred development costs for the calculation of amortisation of deferred development costs. This estimate is determined after considering the expected period in which economic benefits can be generated from the development projects/products/assets in which the deferred development costs relate to. Management reviews the estimated useful lives on an annual basis and future amortisation charges are adjusted where management believes the useful lives differ from previous estimates.

Provision for warranties

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

4. Operating Segment Information

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

Geographical information

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

	European Union HK$	United States of America HK$	Mainland China HK$	Hong Kong HK$	Others HK$	Total HK$
Year ended 31 December 2011						
Revenue from external customers	127,389,937	114,892,720	23,512,896	208,559,828	59,051,322	533,406,703
Year ended 31 December 2010						
Revenue from external customers	189,636,419	31,007,122	63,997,817	179,314,260	33,727,834	497,683,452
As at 31 December 2011						
Non-current assets (excluding deferred tax assets)	–	–	15,023,970	32,247,075	–	47,271,045
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	14,307,661	31,317,075	–	45,624,736
As at 31 December 2010						
Non-current assets (excluding deferred tax assets)	–	–	7,089,640	20,318,774	–	27,408,414
Non-current assets (excluding financial instruments and deferred tax assets)	–	–	7,089,640	20,318,774	–	27,408,414

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

Information about major customers

Revenues of HK$364,585,318 (2010: HK$368,248,237) and HK$67,518,263 (2010: Nil) were derived from transactions with two customers, which individually amounted to 10 per cent or more of the Group's total revenue for the year.

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5. Revenue, Other Income and Gain

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

An analysis of revenue, other income and gain is as follows:

	Group	
	2011	2010
	HK$	HK$
Revenue		
Sale of goods	**515,308,512**	450,387,489
Rendering of services	**14,974,072**	34,603,046
Royalty income	**3,124,119**	12,692,917
	533,406,703	497,683,452
Other income		
Bank interest income	**97,598**	23,968
Other interest income	**6,979,133**	–
Marketing and service income	**–**	73,028
Management service income	**–**	39,000
Government subsidies	**248,953**	114,550
Others	**1,409,835**	422,801
	8,735,519	673,347
Gain		
Gain on disposal of items of property, plant and equipment, net	**12,509**	–
	8,748,028	673,347

6. Finance Costs

An analysis of finance costs is as follows:

	Group	
	2011	2010
	HK$	HK$
Interest on bank loans and overdrafts wholly repayable within five years	**2,696,110**	1,916,538
Bank charges	**930,911**	675,385
Other finance costs on trade receivables factored:		
Bank interest	**913,565**	–
Bank charges	**894,325**	–
	5,434,911	2,591,923

7. Profit/(Loss) Before Tax

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

		Group	
		2011	2010
	Notes	**HK$**	HK$
Cost of inventories sold and services provided		**486,958,388**	423,252,233
Depreciation	14	**3,563,335**	3,102,021
Research and development costs:			
Deferred expenditure amortised^	15	**11,897,552**	5,877,644
Current year expenditure		**8,321,705**	7,357,953
		20,219,257	13,235,597
Minimum lease payments under operating leases:			
Land and buildings		**6,647,271**	2,626,780
Office equipment		**121,824**	112,966
Motor vehicles		**242,181**	173,200
		7,011,276	2,912,946
Auditors' remuneration		**1,380,000**	1,350,000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages, salaries, allowances, bonuses and benefits in kind		**57,437,039**	42,797,263
Equity-settled share option expense		**1,229,744**	1,434,295
Pension scheme contributions (defined contribution schemes)##		**2,895,520**	2,359,891
		61,562,303	46,591,449
Less: Amount capitalised		**(27,505,712)**	(20,257,009)
		34,056,591	26,334,440
Foreign exchange differences, net		**65,596**	(283,518)
Government subsidies#		**(248,953)**	(114,550)
Impairment of items of property, plant and equipment*	14	**–**	23,849
Impairment of deferred development costs*	15	**2,696,891**	–
Impairment of trade receivables*	18	**4,484,428**	116,250
Write-back of provision for impairment of trade receivables*	18	**–**	(5,613)
Write-down of inventories to net realisable value, net^		**1,116,464**	694,563
Loss on transfer arising from factoring of trade receivables*		**254,101**	–
Product warranty provision:			
Additional provision	24	**1,634,537**	909,850
Reversal of unutilised provision	24	**–**	(26,159)
		1,634,537	883,691
Loss/(gain) on disposal of items of property, plant and equipment, net		**(12,509)**	9,550*

7. Profit/(Loss) Before Tax (continued)

* The impairment of items of property, plant and equipment, the impairment of deferred development costs, the impairment of trade receivables, the write-back of provision for impairment of trade receivables, the net loss on disposal of items of property, plant and equipment and the loss on transfer arising from factoring of trade receivables are included in “Other expenses, net” on the face of the consolidated income statement.

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

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

At 31 December 2011, the Group had no material forfeited contributions available to reduce its contributions to its retirement benefit schemes in future years (2010: 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 “Stock Exchange”) and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	HK$	HK$
Fees	**1,435,000**	1,019,355
Other emoluments:		
Salaries, allowances, bonuses and benefits in kind	**5,080,054**	3,188,012
Equity-settled share option expense	**104,650**	32,990
Pension scheme contributions (defined contribution scheme)	**24,000**	21,613
	5,208,704	3,242,615
	6,643,704	4,261,970

In the prior year, a director (the “New Director”) was granted share options before his appointment as a director of the Company, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 27(a) to the financial statements. The fair value of such options which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements for the current and prior years are included in the above directors’ remuneration disclosures.

8. Directors' Remuneration (continued)

(a) Independent non-executive directors

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

	2011 HK$	2010 HK$
Dr. Lam Lee, Kiu Yue Alice Piera	**205,000**	180,000
Mr. Shu, Wa Tung Laurence	**205,000**	180,000
Prof. Chu, Ching Wu Paul*	**–**	107,903
Prof. Chin, Tai Hong Roland*	**205,000**	45,000
Dr. Wu, Po Him Philip*	**–**	135,000
	615,000	647,903

* Prof. Chu, Ching Wu Paul and Dr. Wu, Po Him Philip resigned as independent non-executive directors of the Company on 6 August 2010 and 2 October 2010, respectively. On 2 October 2010, Prof. Chin, Tai Hong Roland was appointed as an independent non-executive director of the Company.

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Executive directors and non-executive directors

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

8. Directors' Remuneration (continued)

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

	Fees HK$	Salaries, allowances, bonuses and benefits in kind HK$	Equity-settled share option expense HK$	Pension scheme contributions HK$	Total remuneration HK$
2010					
Executive directors:					
Dr. Lau, Jack	–	2,051,873	–	9,000	2,060,873
Mr. Tao, Hong Ming#	–	313,548	32,990	2,613	349,151^
Mr. Chui, Shing Yip Jeff#	–	822,591	–	10,000	832,591
	–	3,188,012	32,990	21,613	3,242,615
Non-executive directors:					
Prof. Tsui, Chi Ying##	191,452	–	–	–	191,452
Prof. Cheng, Roger Shu Kwan	180,000	–	–	–	180,000
	371,452	–	–	–	371,452
	371,452	3,188,012	32,990	21,613	3,614,067

On 13 October 2010, Mr. Chui, Shing Yip Jeff resigned and Mr. Tao, Hong Ming was appointed as an executive director of the Company.

Prof. Tsui, Chi Ying, previously an executive director of the Company, has been re-designated as a non-executive director of the Company with effect from 10 March 2010.

^ Only includes the remuneration of Mr. Tao, Hong Ming for the period subsequent to his appointment as a director of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2010: three, of which one of them is the New Director) directors, details of whose remuneration for the period they are the directors of the Company are set out in note 8 to the financial statements. Details of the remuneration of the remaining three non-director, highest paid employees for the year (2010: the New Director for the whole year (including the remuneration of the New Director for the period subsequent to his appointment as a director of the Company of HK$349,151) and two non-director, highest paid employees) are as follows:

	Group	
	2011	2010
	HK$	HK$
Salaries, allowances, bonuses and benefits in kind	**2,665,220**	3,421,333
Equity-settled share option expense	**139,533**	192,781
Pension scheme contributions (defined contribution scheme)	**36,000**	36,000
	2,840,753	3,650,114*

The number of non-director, highest-paid employees, including the New Director for the whole year in the prior year, whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	3	3

In the prior year, share options were granted to two non-director, highest paid employees and the New Director before his appointment as a director of the Company in respect of their services to the Group, further details of which are included in the disclosures in note 27(a) to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements for the current and prior years are included in the above non-director, highest paid employees' remuneration disclosures.

10. Income Tax

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

	2011 **HK$**	2010 HK$
Group:		
Current – Hong Kong:		
– Charge for the year	**–**	1,156,758
– Underprovision/(overprovision) in prior years	**(1,070)**	26,377
Current – Elsewhere:		
– Charge for the year	**220,823**	245,253
– Overprovision in prior years	**(274,544)**	–
Deferred (note 25)	**(3,342,303)**	2,443,171
Total tax charge/(credit) for the year	**(3,397,094)**	3,871,559

10. Income Tax (continued)

A reconciliation of the tax charge/(credit) applicable to profit/(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 charge/(credit) at the Group's effective tax rate is as follows:

	2011	2010
	HK$	HK$
Profit/(loss) before tax	**(25,385,965)**	26,895,516
Hong Kong statutory tax rate	**16.5%**	16.5%
Tax charge/(credit) at the Hong Kong statutory tax rate	**(4,188,684)**	4,437,760
Effect of difference in tax rate/tax rule for specific jurisdiction or enacted by local tax authority	**(90,915)**	(108,173)
Adjustment in respect of current tax of prior periods	**(275,614)**	26,377
Adjustment in respect of deferred tax of prior periods	**–**	(1,294,424)
Income not subject to tax	**(75,094)**	(58,491)
Expenses not deductible for tax	**1,441,568**	776,498
Tax losses utilised from prior periods	**(256,833)**	–
Others	**48,478**	92,012
Tax charge/(credit) at the Group's effective tax rate	**(3,397,094)**	3,871,559

A subsidiary of the Group established and operating in the Shenzhen Special Economic Zone of the PRC is subject to the PRC's State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to tax rate reductions under concession policies shall have a grace period of five years to comply with the requirements of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate on or before 31 December 2007 will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively. In addition, the Group's subsidiary established in the PRC has obtained the status of National High-Tech Enterprise and, accordingly, is entitled to a lower PRC corporate income tax rate of 15% for the years ended 31 December 2011 and 2010.

11. Profit/(Loss) Attributable to Owners of the Parent

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2011 includes a loss of HK$3,890,584 (2010: loss of HK$4,075,415) which has been dealt with in the financial statements of the Company.

12. Dividend

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

13. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Parent

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

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

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

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

13. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Parent (continued)

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

14. 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 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	10,676,491	1,762,236	686,177	17,299,260	531,118	30,955,282
Accumulated depreciation and impairment	(8,225,653)	(1,337,581)	(648,663)	(15,994,167)	(98,031)	(26,304,095)
Net carrying amount	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187
At 1 January 2011, net of accumulated depreciation and impairment	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187
Additions	4,920,749	299,055	2,186,731	341,889	728,430	8,476,854
Disposals	(46,311)	–	(22,905)	(382,000)	–	(451,216)
Depreciation provided during the year	(1,787,351)	(295,688)	(531,841)	(731,817)	(216,638)	(3,563,335)
Exchange realignment	93,411	–	12,782	–	9,381	115,574
At 31 December 2011, net of accumulated depreciation and impairment	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064
At 31 December 2011:						
Cost	14,799,412	2,061,291	2,359,580	11,827,819	1,273,264	32,321,366
Accumulated depreciation and impairment	(9,168,076)	(1,633,269)	(677,299)	(11,294,654)	(319,004)	(23,092,302)
Net carrying amount	5,631,336	428,022	1,682,281	533,165	954,260	9,229,064

14. Property, Plant and Equipment (continued)

Group (continued)

	Furniture, fixtures and office equipment HK$	Machinery and equipment HK$	Leasehold improvements HK$	Toolings HK$	Motor vehicles HK$	Total HK$
31 December 2010						
At 1 January 2010:						
Cost	9,504,517	1,643,104	675,600	16,246,485	143,272	28,212,978
Accumulated depreciation and impairment	(6,951,252)	(1,005,735)	(582,079)	(14,804,092)	(20,893)	(23,364,051)
Net carrying amount	2,553,265	637,369	93,521	1,442,393	122,379	4,848,927
At 1 January 2010, net of accumulated depreciation and impairment	2,553,265	637,369	93,521	1,442,393	122,379	4,848,927
Additions	1,353,179	119,132	–	1,052,775	383,988	2,909,074
Disposals	(18,620)	–	–	–	–	(18,620)
Impairment	–	–	–	(23,849)	–	(23,849)
Depreciation provided during the year	(1,471,166)	(331,846)	(56,885)	(1,166,226)	(75,898)	(3,102,021)
Exchange realignment	34,180	–	878	–	2,618	37,676
At 31 December 2010, net of accumulated depreciation and impairment	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187
At 31 December 2010:						
Cost	10,676,491	1,762,236	686,177	17,299,260	531,118	30,955,282
Accumulated depreciation and impairment	(8,225,653)	(1,337,581)	(648,663)	(15,994,167)	(98,031)	(26,304,095)
Net carrying amount	2,450,838	424,655	37,514	1,305,093	433,087	4,651,187

During the year ended 31 December 2010, the directors reassessed the recoverable amount of certain items of toolings with reference to the changes in technological, market and economic environment, and estimated sales orders, and considered that a provision for impairment of HK$23,849 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 cost to sell or value in use that could be recovered.

15. Deferred Development Costs

	Group 2011 HK$	Group 2010 HK$
Cost at 1 January, net of accumulated amortisation and impairment	**22,190,769**	7,691,097
Additions – internal development	**27,505,712**	20,257,009
Amortisation provided during the year	**(11,897,552)**	(5,877,644)
Impairment during the year	**(2,696,891)**	–
Exchange realignment	**325,195**	120,307
At 31 December	**35,427,233**	22,190,769
At 31 December:		
Cost	**55,591,875**	41,982,529
Accumulated amortisation and impairment	**(20,164,642)**	(19,791,760)
Net carrying amount	**35,427,233**	22,190,769

The impairment recognised during the year ended 31 December 2011 mainly reflected the decrease in the recoverable amounts of certain electronic device development projects of the Group primarily as a result of a decrease in the future revenue that the Group expects to derive from these projects.

16. Interests in Subsidiaries

	Company 2011 HK$	Company 2010 HK$
Unlisted investments, at cost	**10,144,507**	10,144,507
Due from subsidiaries	**82,034,263**	78,192,343
	92,178,770	88,336,850

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

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16. Interests in Subsidiaries (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 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, including DSP platform and embedded firmware, the provision of turnkey solutions, and trading of electronic components.
PD Trading (Hong Kong) Limited	Hong Kong	HK$2	–	100	Research, design, development and sale of DSP-based consumer electronic devices, including DSP platform and embedded firmware, the provision of turnkey solutions, and trading of electronic components.
IWC Digital Limited	Hong Kong	HK$2	–	100	Inactive
幻音科技(深圳)有限公司*	PRC/Mainland China	HK$8,000,000	–	100	Research and development of DSP platform and provision of embedded firmware

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

17. Inventories

	Group 2011 HK$	2010 HK$
Raw materials and components	**36,537,421**	30,798,537
Work in progress	**5,251,510**	–
Finished goods	**4,723,656**	5,692,781
	46,512,587	36,491,318

18. Trade Receivables

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

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

Trade receivables are non-interest-bearing, except for two individual balances of HK$10,626,741 (2010: Nil) and HK$9,058,617 (2010: Nil) which bear interest at 1.6% per month and 14% per annum, respectively.

The Group does not hold any collateral or other credit enhancements over its trade receivables, except for two individual trade receivables of HK$9,058,617 (2010: HK$6,552,925) and HK$10,626,741 (2010: Nil) as at 31 December 2011 which were secured by certain inventories of a customer and an intellectual property of another customer of the Group, respectively, further details of which are included in note 19 to the financial statements.

18. Trade Receivables (continued)

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

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

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

	Group	
	2011	2010
	HK$	HK$
At 1 January	**1,156,799**	1,046,162
Impairment losses recognised (note 7)	**4,484,428**	116,250
Impairment losses reversed (note 7)	**–**	(5,613)
At 31 December	**5,641,227**	1,156,799

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$5,641,227 (2010: HK$1,156,799) with a carrying amount before provision of HK$15,293,524 (2010: HK$1,156,799). The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and none or only a portion of the receivables is expected to be recovered.

18. Trade Receivables (continued)

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

	Group	
	2011	2010
	HK$	HK$
Neither past due nor impaired	**92,706,811**	136,826,460
Less than 31 days past due	**41,890,416**	43,715,039
31 to 60 days past due	**2,332,505**	855,418
61 to 90 days past due	**1,875,488**	478,681
Over 90 days past due	**5,286,780**	6,506,410
	144,092,000	188,382,008

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

Trade receivables that were past due but not impaired relate to a number of independent debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality or relationship with the debtors and the balances are still considered fully recoverable.

18. Trade Receivables (continued)

As at 31 December 2011, the Group factored trade receivables of HK$147,080,489 (2010: Nil) to a bank for cash. As the financial asset derecognition conditions as stipulated in HKAS 39 *Financial Instruments: Recognition and Measurement* have not been fulfilled, the Group's factored receivables are not derecognised in their entirety. The Group continued to recognise factored trade receivables of HK$13,547,771 (2010: Nil) and recognised their associated liabilities of HK$13,801,872 (2010: Nil) in the consolidated statement of financial position as at 31 December 2011 to the extent of its continuing involvement in the transferred trade receivables under the factoring arrangements with the bank. Accordingly, a loss on transfer of HK$254,101 (2010: Nil) was resulted for the year ended 31 December 2011 from the factoring of trade receivables.

19. Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Prepayments	**14,997,079**	2,899,153	**2,042**	115,017
Deposits and other receivables	**54,660,942**	12,187,798	**–**	–
	69,658,021	15,086,951	**2,042**	115,017
Less: Portion classified as non-current assets	**(2,614,748)**	(566,458)	**–**	–
Current portion	**67,043,273**	14,520,493	**2,042**	115,017

19. Prepayments, Deposits and Other Receivables (continued)

An other receivable of HK$14,206,589 (2010: HK$7,454,879) and a trade receivable of HK$9,058,617 (2010: HK$6,552,925) of the Group that are not individually determined to be impaired as at 31 December 2011 were secured by certain inventories of a customer of the Group.

An other receivable of HK$17,016,081 (2010: Nil) and a trade receivable of HK$10,626,741 (2010: Nil) as at 31 December 2011 were secured by an intellectual property of another customer of the Group.

None of the above assets is either past due or impaired at the end of the reporting period. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default or are due from major/strategic customers of the Group.

20. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Cash at banks and on hand	**40,365,986**	39,497,771	**29,311,226**	28,387,185
Pledged deposits	**16,960,903**	9,183,376	**–**	–
	57,326,889	48,681,147	**29,311,226**	28,387,185
Less: Pledged deposits for banking facilities	**(16,182,563)**	(8,323,636)	**–**	–
Pledged deposit for a licensing arrangement	**(778,340)**	(859,740)	**–**	–
Cash and cash equivalents	**40,365,986**	39,497,771	**29,311,226**	28,387,185

20. Cash and Cash Equivalents and Pledged Deposits (continued)

At the end of the reporting period, the cash at banks and on hand, and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$172,177 (2010: HK$678,652) and HK$11,357,155 (2010: HK$2,972,144), 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. Pledged deposits are made for varying periods of between one day and six 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 pledged deposits are deposited with creditworthy banks with no recent history of default.

21. Trade Payables

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

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

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

22. Other Payables and Accruals

	Group		Company	
	2011	2010	**2011**	2010
	HK$	HK$	**HK$**	HK$
Other payables	**20,999,935**	4,970,819	**182,875**	30,675
Other accruals	**6,391,827**	5,039,399	**296,900**	524,840
	27,391,762	10,010,218	**479,775**	555,515

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

23. Interest-bearing Bank Borrowings

Group

	2011			2010		
	Contractual interest rate	**Maturity**	**HK$**	Contractual interest rate	Maturity	HK$
Current						
Portion of bank loans due for repayment within one year or on demand – unsecured	**3.75% to 5.75%**	**2012**	**7,240,947**	4.25% to 5.75%	2011	7,914,724
Portion of bank loans due for repayment within one year or on demand – secured	**2.68% to 6.75%**	**2012**	**62,694,081**	3.56% to 6.00%	2011	38,491,472
Portion of a bank loan due for repayment after one year which contains a repayment on demand clause (note) – unsecured	**4.25%**	**2013**	**247,192**	4.25%	2012 – 2013	1,210,189
			70,182,220			47,616,385
Non-current						
Portion of bank loans due for repayment after one year – unsecured	**5.25% to 5.75%**	**2013 – 2015**	**5,378,655**	5.25% to 5.75%	2012 – 2015	7,766,604
Portion of a bank loan due for repayment after one year – secured	**6%**	**2013 – 2015**	**2,015,170**	–	–	–
			7,393,825			7,766,604
			77,576,045			55,382,989

23. Interest-bearing Bank Borrowings (continued)

	Group 2011 HK$	2010 HK$
Analysed into:		
Bank loans repayable:		
Within one year or on demand (note)	**70,182,220**	47,616,385
In the second year	**3,271,620**	2,387,950
In the third to fifth years, inclusive	**4,122,205**	5,378,654
	77,576,045	55,382,989

Note:

A term loan of the Group with a carrying amount of HK$1,210,189 (2010: HK$2,133,308) containing a repayment on demand clause has been classified in total as a current liability. Accordingly, a portion of the bank loan due for repayment after one year with a carrying amount of HK$247,192 (2010: HK$1,210,189) has been reclassified as a current liability. For the purpose of the above analysis, the loan is included within current interest-bearing bank borrowings and analysed into bank loans repayable within one year or on demand.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the loans, the loans are repayable:

	Group 2011 HK$	2010 HK$
Within one year or on demand	**69,935,028**	46,406,196
In the second year	**3,518,812**	3,350,947
In the third to fifth years, inclusive	**4,122,205**	5,625,846
	77,576,045	55,382,989

Certain of the Group's interest-bearing bank borrowings and general banking facilities are secured by the pledge of certain of the Group's time deposits amounting to HK$16,960,903 (2010: HK$9,183,376) as at 31 December 2011.

23. Interest-bearing Bank Borrowings (continued)

The Government of the Hong Kong Special Administrative Region has provided special guarantees for certain of the Group's banking facilities up to a guarantee amount of HK$9,600,000 (2010: HK$9,600,000) as at 31 December 2011.

Except for certain bank borrowings amounting to HK$62,638,550 and HK$23,054,186 as at 31 December 2011 and 2010, respectively, which are denominated in United States dollars, all the bank borrowings of the Group are denominated in Hong Kong dollars.

24. Provision

Group

	Product warranties HK$
At 1 January 2011	891,142
Additional provision (note 7)	1,634,537
Amounts utilised during the year	(891,142)
At 31 December 2011	1,634,537

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.

25. 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 2010	219,350	982,633	1,201,983
Deferred tax charged to the income statement during the year*	53,012	2,592,208	2,645,220
Gross deferred tax liabilities at 31 December 2010 and at 1 January 2011	272,362	3,574,841	3,847,203
Deferred tax charged to the income statement during the year*	51,617	2,082,120	2,133,737
Exchange realignment	–	48,780	48,780
Gross deferred tax liabilities at 31 December 2011	323,979	5,705,741	6,029,720

25. Deferred Tax (continued)

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

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$	Losses available for offsetting against future taxable profits HK$	Warranty provision HK$	Total HK$
At 1 January 2010	99,276	1,036,537	224,955	1,360,768
Deferred tax credited/(charged) to the income statement during the year*	(29,887)	309,853	(77,917)	202,049
Gross deferred tax assets at 31 December 2010 and at 1 January 2011	69,389	1,346,390	147,038	1,562,817
Deferred tax credited to the income statement during the year*	9,349	5,344,030	122,661	5,476,040
Gross deferred tax assets at 31 December 2011	78,738	6,690,420	269,699	7,038,857

* Net deferred tax credited to the income statement during the year amounted to HK$3,342,303 (2010: net deferred tax charged of HK$2,443,171) (note 10).

For presentation purpose, 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 2011 HK$	Group 2010 HK$
Net deferred tax assets recognised in the consolidated statement of financial position	**2,406,665**	139,734
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(1,397,528)**	(2,424,120)

26. Share Capital

Shares

	2011 HK$	2010 HK$
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000,000**	200,000,000
Issued and fully paid:		
622,500,000 (2010: 622,500,000) ordinary shares of HK$0.1 each	**62,250,000**	62,250,000

A summary of the movements in the Company's issued share capital during the years ended 31 December 2010 and 2011 is as follows:

	Number of ordinary shares	Issued capital HK$	Share premium account HK$	Total HK$
At 1 January 2010	600,000,000	60,000,000	30,057,764	90,057,764
Issue of new shares upon exercise of the Over-allotment Option (note)	22,500,000	2,250,000	13,950,000	16,200,000
Share issue costs	–	–	(517,457)	(517,457)
At 31 December 2010, 1 January 2011 and 31 December 2011	622,500,000	62,250,000	43,490,307	105,740,307

26. Share Capital (continued)

Note: In connection with a placing of certain new ordinary shares of the Company during 2009 (the "Placing"), the Company granted an over-allotment option (the "Over-allotment Option") to the underwriters in respect of the Placing. The Over-allotment Option was exercisable within 30 days after the last day for lodging applications under a public offer of certain new ordinary shares of the Company during 2009. Pursuant to the Over-allotment Option, the Company could be required to allot and issue, at the final offer price (that is, HK$0.72 per share), up to an additional 22,500,000 ordinary shares of the Company to cover over-allocations in the Placing.

On 8 January 2010, the Over-allotment Option was exercised in respect of an aggregate of 22,500,000 additional ordinary shares of the Company. Accordingly, pursuant to the Over-allotment Option, 22,500,000 ordinary shares of the Company of HK$0.10 each were issued and allotted by the Company at HK$0.72 per share for a total cash consideration, before share issue costs, of HK$16,200,000 for the sole purpose of covering over-allocations in the Placing.

Further details of the Placing, the public offer, the Over-allotment Option and the exercise of the Over-allotment Option are also set out in a prospectus of the Company dated 4 December 2009 or in an announcement of the Company dated 8 January 2010.

27. Equity-settled Share Option Arrangements

(a) Share Option Scheme

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

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

27. Equity-settled Share Option Arrangements (continued)

(a) Share Option Scheme (continued)

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 Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

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

	2011		2010	
	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**	**14,880,000**	–	–
Granted during the year	**0.348**	**1,000,000**	0.7	15,480,000
Forfeited during the year	**0.7**	**(880,000)**	0.7	(600,000)
At 31 December	**0.677**	**15,000,000**	0.7	14,880,000

27. Equity-settled Share Option Arrangements (continued)

(a) Share Option Scheme (continued)

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

2011

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

2010

Number of options	Exercise price* HK$ per share	Exercise period
3,720,000	0.7	26 March 2011 to 25 March 2012
3,720,000	0.7	26 March 2012 to 25 March 2013
7,440,000	0.7	26 March 2013 to 25 March 2014
14,880,000		

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

The fair value of the share options granted during the year was HK$55,800 (HK$0.0558 each) (2010: HK$3,803,436 (HK$0.20 to HK$0.27 each)) of which the Group recognised a share option expense of HK$55,800 (2010: HK$1,434,295) during the year ended 31 December 2011.

27. Equity-settled Share Option Arrangements (continued)

(a) Share Option Scheme (continued)

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

	2011	2010
Dividend yield (%)	**2.90**	0.75
Expected volatility (%)	**43.37**	55.96 – 64.06
Historical volatility (%)	**43.37**	55.96 – 64.06
Risk-free interest rate (%)	**0.36**	0.69 – 1.52
Expected life of options (year)	**1**	2 – 4
Weighted average share price (HK$ per share)	**0.345**	0.67

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

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

At the end of the reporting period, the Company had 15,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,000,000 additional ordinary shares of the Company and additional share capital of HK$1,500,000 and share premium of HK$8,648,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 14,800,000 share options outstanding under the Scheme, which represented approximately 2.38% of the Company's shares in issue as at that date.

(b) Share Options under a Supply Chain Management Agreement

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

27. Equity-settled Share Option Arrangements (continued)

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

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

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

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

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

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

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

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

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

27. Equity-settled Share Option Arrangements (continued)

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

The fair value of the Options granted during the year was HK$7,305,815 (HK$0.12 each) of which the Group recognised a share option expense of HK$2,204,964 (2010: Nil) during the year ended 31 December 2011.

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

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

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

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

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

At the date of approval of these financial statements, the Company had 62,250,000 Options outstanding under the Option Agreement, which represented 10% of the Company's shares in issue as at that date.

During the year ended 31 December 2011, the Company recognised an equity-settled share option expense under HKFRS 2 *Group and Treasury Share Transactions* of HK$3,434,709 (2010: HK$1,434,295) for share options granted during the current year and prior years.

28. 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 44 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) a 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$	Share option reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2010		30,057,764	10,177,239	–	(1,139,124)	39,095,879
Profit and total comprehensive income for the year		–	–	–	3,183,320	3,183,320
Issue of new shares upon exercise of the Over-allotment Option	26	13,950,000	–	–	–	13,950,000
Share issue costs	26	(517,457)	–	–	–	(517,457)
Equity-settled share option arrangements	27	–	–	1,434,295	–	1,434,295
Final 2009 dividend declared		–	–	–	(3,112,500)	(3,112,500)
At 31 December 2010 and at 1 January 2011		43,490,307	10,177,239	1,434,295	(1,068,304)	54,033,537
Profit and total comprehensive income for the year		–	–	–	4,406,517	4,406,517
Equity-settled share option arrangements	27	–	–	3,434,709	–	3,434,709
Transfer of share option reserve upon the forfeiture of share options		–	–	(37,851)	37,851	–
Final 2010 dividend declared	12	–	–	–	(3,112,500)	(3,112,500)
At 31 December 2011		43,490,307	10,177,239	4,831,153	263,564	58,762,263

28. Reserves (continued)

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 payment transactions 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 or accumulated losses should the related options expire or be forfeited after vesting.

29. Contingent Liabilities

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

As at 31 December 2011, 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$55,620,434 (2010: HK$30,046,723). As at 31 December 2011, the trade receivable factoring facilities granted to a subsidiary subject to a guarantee given to a bank by the Company were utilised to the extent of approximately HK$89,211,000 (2010: Nil).

30. Operating Lease Arrangements

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$	HK$
Within one year	**7,092,890**	574,112
In the second to fifth years, inclusive	**7,433,413**	125,620
	14,526,303	699,732

31. Commitment

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitment as at the end of the reporting period:

	Group	
	2011	2010
	HK$	HK$
Contracted, but not provided for leasehold improvements	**–**	718,522

32. Related Party Transactions

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

(a) During the year, the Group entered into (i) a tenancy agreement with Welleader Group Limited ("Welleader"), a company wholly-owned by the spouse of a director and the chief executive office of the Company, for the leasing of an office premises by the Group and (ii) a sublease agreement with another company beneficially owned by a substantial shareholder of the Company, with that company as the lessor and Welleader as the sublessor, for the leasing of another office premises by the Group (collectively, the "Leases"). Further details of the Leases are set out in an announcement and a supplemental announcement of the Company dated 26 January 2011 and 31 January 2011, respectively.

The rental expense recognised by the Group for the financial year ended 31 December 2011 in respect of the Leases (net of the effect of applicable rent-free period over the lease terms) amounted to approximately HK$3,246,000 (2010 Nil).

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

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

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

	Group	
	2011	2010
	HK$	HK$
Short term employee benefits	**8,155,274**	6,295,797
Post-employment benefits	**60,000**	55,000
Equity-settled share option expense	**244,183**	192,781
Total compensation paid to key management personnel	**8,459,457**	6,543,578

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

33. 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

	2011 HK$	2010 HK$
Loans and receivables:		
Trade receivables	**153,744,297**	188,382,008
Financial assets included in prepayments, deposits and other receivables	**53,692,503**	11,621,340
Pledged deposits	**16,960,903**	9,183,376
Cash and cash equivalents	**40,365,986**	39,497,771
	264,763,689	248,684,495

Financial liabilities

	2011 HK$	2010 HK$
Financial liabilities at amortised cost:		
Trade payables	**167,896,256**	125,287,874
Other payables and accruals	**27,391,762**	10,010,218
Interest-bearing bank borrowings	**77,576,045**	55,382,989
	272,864,063	190,681,081

33. Financial Instruments By Category (continued)

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

Company

Financial assets

	2011 HK$	2010 HK$
Loans and receivables:		
Due from subsidiaries	**77,165,259**	78,192,343
Cash and cash equivalents	**29,311,226**	28,387,185
	106,476,485	106,579,528

Financial liabilities

	2011 HK$	2010 HK$
Financial liabilities at amortised cost:		
Other payables and accruals	**479,775**	555,515

34. Fair Value and Fair Value Hierarchy

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

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

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

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

34. Fair Value and Fair Value Hierarchy (continued)

Fair value hierarchy

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

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

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

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

Assets and liabilities measured at fair value:

The Group and the Company did not have any financial assets and liabilities measured at fair value as at 31 December 2010 and 2011.

35. Financial Risk Management Objectives and Policies

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk. The Group mitigates this risk by closely monitoring the movements in interest rates and reviewing its available credit facilities and their utilisation regularly.

35. Financial Risk Management Objectives and Policies (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	**Decrease/ (increase) in loss before tax**
		HK$
Year ended 31 December 2011		
Hong Kong dollar	**25**	**(37,344)**
Hong Kong dollar	**(25)**	**37,344**
United States dollar	**25**	**(156,596)**
United States dollar	**(25)**	**156,596**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		HK$
Year ended 31 December 2010		
Hong Kong dollar	25	(80,822)
Hong Kong dollar	(25)	80,822
United States dollar	25	(57,635)
United States dollar	(25)	57,635

35. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures primarily arise from revenue and other income generated, cost and expenses incurred, and certain bank borrowings denominated in currencies other than the Group's operating units' functional currency. 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 2011 and 2010, and the units' monetary assets and liabilities denominated in foreign currencies that were translated at the functional currency rates of exchange ruling as at the end of the reporting period were mainly denominated in Hong Kong dollars. As the Hong Kong dollar ("HK$") is pegged to the United States dollar ("US$") within a narrow band, the Group does not expect any significant movements in the US$/HK$ exchange rate. Accordingly, management considers that the Group's foreign currency risk exposure is not significant.

Credit risk

The Group primarily trades with recognised and creditworthy third parties. It is the Group's policy that advanced payments are generally required for new customers. In addition, receivable balances of the Group are monitored on an ongoing basis. Since the Group primarily trades with recognised and creditworthy third parties, there is normally no requirement for collateral, except for certain arrangements, as further detailed in notes 18 and 19 to the financial statements, under which the collaterals held by the Group have significantly mitigated the credit risks of the corresponding receivables in the opinion of the directors.

The credit risk of the Group's financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 29 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 28.2% (2010: 69.3%) and 78.2% (2010: 91.6%) 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 18 to the financial statements.

35. Financial Risk Management Objectives and Policies (continued)

Liquidity risk

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

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

Group

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

	2010		
	On demand or less than 1 year HK$	1 to 5 years HK$	Total HK$
Trade payables	125,287,874	–	125,287,874
Other payables and accruals	9,896,656	–	9,896,656
Interest-bearing bank borrowings (note)	48,205,818	8,464,735	56,670,553
	183,390,348	8,464,735	191,855,083

35. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Note:

Included in the above interest-bearing bank borrowings is a term loan with a carrying amount of HK$1,210,189 (2010: HK$2,133,308). The loan agreement contains a repayment on demand clause giving the bank the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

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

In accordance with the terms of the loan which contains a repayment on demand clause, the maturity profile of that loan 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:

	Less than 1 year HK$	1 to 5 years HK$	Total HK$
As at 31 December 2011	**995,916**	**248,950**	**1,244,866**
As at 31 December 2010	995,916	1,244,866	2,240,782

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

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

35. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

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

Company (continued)

	2010		
	On demand HK$	Less than 1 year HK$	Total HK$
Financial liabilities – other payables and accruals	–	555,515	555,515
Guarantees given to banks in connection with facilities granted to subsidiaries	30,046,723	–	30,046,723
	30,046,723	555,515	30,602,238

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 adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is subject to certain capital requirements, such as gearing ratio, imposed by certain banks of which the Group maintains banking facilities with. These capital requirements are monitored by management on an ongoing basis.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

36. Approval of the Consolidated Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 March 2012.

Financial Summary

A summary of the Group's results for the last five financial years and the assets and liabilities of the Group as at 31 December 2011, 2010, 2009, 2008 and 2007, as extracted from the published audited financial statements, and the prospectus of the Company dated 4 December 2009, is set out below. The amounts as set out in this financial summary are prepared as if the group structure immediately after a group reorganisation in 2009 had been in existence throughout the years presented.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$	HK$	HK$	HK$	HK$
RESULTS					
REVENUE	**533,406,703**	497,683,452	548,148,089	555,780,401	616,738,169
Cost of sales	**(486,958,388)**	(423,252,233)	(461,530,840)	(460,446,469)	(493,990,112)
Gross profit	**46,448,315**	74,431,219	86,617,249	95,333,932	122,748,057
Other income and gain	**8,748,028**	673,347	899,908	582,718	729,186
Research and development costs	**(8,321,705)**	(7,357,953)	(15,629,989)	(26,273,609)	(24,362,543)
Selling and distribution costs	**(13,923,258)**	(10,338,614)	(13,946,828)	(15,556,055)	(18,079,881)
General and administrative expenses	**(45,467,014)**	(27,776,524)	(26,146,395)	(31,978,348)	(26,078,472)
Other expenses, net	**(7,435,420)**	(144,036)	(518,912)	(4,603,711)	(3,870,515)
Finance costs	**(5,434,911)**	(2,591,923)	(3,882,964)	(4,821,828)	(11,231,806)
PROFIT/(LOSS) BEFORE TAX	**(25,385,965)**	26,895,516	27,392,069	12,683,099	39,854,026
Income tax credit/(expense)	**3,397,094**	(3,871,559)	234,335	(4,520,419)	(9,067,718)
PROFIT/(LOSS) FOR THE YEAR	**(21,988,871)**	23,023,957	27,626,404	8,162,680	30,786,308
Attributable to:					
Owners of the parent	**(21,988,871)**	23,023,957	27,626,404	8,162,680	30,786,308

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$	HK$	HK$	HK$	HK$
ASSETS AND LIABILITIES					
TOTAL ASSETS	**375,347,282**	315,623,114	430,701,326	241,872,339	285,033,710
TOTAL LIABILITIES	**(276,729,895)**	(196,026,695)	(348,448,425)	(277,806,043)	(330,016,096)
	98,617,387	119,596,419	82,252,901	(35,933,704)	(44,982,386)