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## PERCEPTION DIGITAL HOLDINGS LIMITED

### 幻音數碼控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1822)

## UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of Directors (the “Board”) hereby presents the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2012 together with the comparative unaudited figures for the corresponding period in 2011, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	HK\$	HK\$
		(Unaudited)	(Unaudited)
REVENUE	3	169,043,165	215,516,877
Cost of sales		<u>(156,845,891)</u>	<u>(186,735,195)</u>
Gross profit		12,197,274	28,781,682
Other income		5,375,510	1,709,012
Research and development costs		(3,944,732)	(4,063,635)
Selling and distribution costs		(6,012,887)	(6,598,264)
General and administrative expenses		(24,702,659)	(19,395,695)
Finance costs	5	<u>(3,937,727)</u>	<u>(2,107,810)</u>
LOSS BEFORE TAX	6	(21,025,221)	(1,674,710)
Income tax credit/(expense)	7	<u>2,705,243</u>	<u>(311,903)</u>
LOSS FOR THE PERIOD		<u><u>(18,319,978)</u></u>	<u><u>(1,986,613)</u></u>
Attributable to owners of the parent		<u><u>(18,319,978)</u></u>	<u><u>(1,986,613)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	8	<u><u>(2.94) cents</u></u>	<u><u>(0.32) cents</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	(18,319,978)	(1,986,613)
OTHER COMPREHENSIVE (EXPENSES)/INCOME:		
Exchange differences on translation	<u>(150,714)</u>	<u>380,428</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD	<u><b>(18,470,692)</b></u>	<u><b>(1,606,185)</b></u>
Attributable to:		
Owners of the parent	<u><b>(18,470,692)</b></u>	<u><b>(1,606,185)</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		30 June 2012 <i>HK\$</i> (Unaudited)	31 December 2011 <i>HK\$</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		8,074,227	9,229,064
Deferred development costs		42,793,610	35,427,233
Long term deposits		2,749,070	2,614,748
Deferred tax assets		5,111,908	2,406,665
		<u>58,728,815</u>	<u>49,677,710</u>
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories		41,102,483	46,512,587
Trade receivables	10	74,955,494	153,744,297
Prepayments, deposits and other receivables	11	67,427,561	67,043,273
Tax recoverable		1,042,526	1,042,526
Pledged deposit		16,185,684	16,960,903
Cash and bank balances		14,704,987	40,365,986
		<u>215,418,735</u>	<u>325,669,572</u>
Total current assets			
<b>CURRENT LIABILITIES</b>			
Trade payables	12	82,233,372	167,896,256
Other payables and accruals		16,308,136	27,391,762
Interest-bearing bank borrowings		85,504,382	70,182,220
Tax payable		830,359	833,767
Provision		1,468,792	1,634,537
		<u>186,345,041</u>	<u>267,938,542</u>
Total current liabilities			
<b>NET CURRENT ASSETS</b>		<u>29,073,694</u>	<u>57,731,030</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>87,802,509</u>	<u>107,408,740</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing		5,780,446	7,393,825
Deferred tax liabilities		1,391,814	1,397,528
		<u>7,172,260</u>	<u>8,791,353</u>
Total non-current liabilities			
Net assets		<u>80,630,249</u>	<u>98,617,387</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		62,250,000	62,250,000
Reserves		18,380,249	36,367,387
		<u>80,630,249</u>	<u>98,617,387</u>
<b>Total equity</b>		<u>80,630,249</u>	<u>98,617,387</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Issued capital <i>HK\$</i>	Share premium account <i>HK\$</i>	Capital reserve <i>HK\$</i>	Share option reserve <i>HK\$</i>	Exchange fluctuation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total Equity <i>HK\$</i>
At 1 January 2011 (unaudited)	62,250,000	43,490,307	46,935,776	1,434,295	1,540,394	(36,054,353)	119,596,419
Total comprehensive expenses for the period	–	–	–	–	380,428	(1,986,613)	(1,606,185)
Equity-based share option arrangement	–	–	–	689,198	–	6,138	695,336
Final 2010 dividend declared	–	–	(3,112,500)	–	–	–	(3,112,500)
	<u>62,250,000</u>	<u>43,490,307</u>	<u>43,823,276</u>	<u>2,123,493</u>	<u>1,920,822</u>	<u>(38,034,828)</u>	<u>115,573,070</u>
At 30 June 2011 (unaudited)	<u>62,250,000</u>	<u>43,490,307</u>	<u>43,823,276</u>	<u>2,123,493</u>	<u>1,920,822</u>	<u>(38,034,828)</u>	<u>115,573,070</u>
At 1 January 2012 (unaudited)	62,250,000	43,490,307	43,823,276	4,831,153	2,228,024	(58,005,373)	98,617,387
Total comprehensive expenses for the period	–	–	–	–	(150,714)	(18,319,978)	(18,470,692)
Equity-based share option arrangement	–	–	–	483,554	–	–	483,554
	<u>62,250,000</u>	<u>43,490,307</u>	<u>43,823,276</u>	<u>5,314,707</u>	<u>2,077,310</u>	<u>(76,325,351)</u>	<u>80,630,249</u>
At 30 June 2012 (unaudited)	<u>62,250,000</u>	<u>43,490,307</u>	<u>43,823,276</u>	<u>5,314,707</u>	<u>2,077,310</u>	<u>(76,325,351)</u>	<u>80,630,249</u>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(18,801,041)</b>	19,123,228
<b>Net cash outflow from investing activities</b>	<b>(16,471,178)</b>	(16,957,008)
<b>Net cash inflow/(outflow) from financing activities</b>	<b><u>2,680,283</u></b>	<u>(4,876,857)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(32,591,936)</b>	(2,710,637)
Cash and cash equivalents at 1 January	<b>40,365,986</b>	39,497,771
Effect of foreign exchange rate changes, net	<b><u>(159,836)</u></b>	<u>269,373</u>
<b>Cash and cash equivalents at end of period</b>	<b><u><u>7,614,214</u></u></b>	<u><u>37,056,507</u></u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>14,704,987</b>	37,574,452
Bank overdrafts	<b><u>(7,090,773)</u></b>	<u>(517,945)</u>
	<b><u><u>7,614,214</u></u></b>	<u><u>37,056,507</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

For the six months ended 30 June 2012

## 1. CORPORATE INFORMATION

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

During the six months ended 30 June 2012, the Group was primarily involved in the research, design and development of digital signal processing (“DSP”) platform and the provision of embedded firmware and “end-to-end” turnkey solutions to customers for their DSP-based consumer electronic devices.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars. The accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2011.

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

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

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

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

### 3. REVENUE

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

The following table sets out a breakdown of our revenue:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
Sales of products	<b>166,379,736</b>	199,584,098
Royalty income	<b>74,936</b>	2,759,236
Rendering of services	<b>2,588,493</b>	13,173,543
	<b><u>169,043,165</u></b>	<u>215,516,877</u>

### 4. OPERATING SEGMENT INFORMATION

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

#### Geographical information

The following table presents revenue from external customers for the periods ended 30 June 2012 and 2011 by geographical areas.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Six months ended 30 June 2012</b>						
Revenue from external customers (Unaudited)	<u>46,562,976</u>	<u>28,808,899</u>	<u>8,741,104</u>	<u>35,561,653</u>	<u>49,368,533</u>	<u>169,043,165</u>
<b>Six months ended 30 June 2011</b>						
Revenue from external customers (Unaudited)	<u>56,753,922</u>	<u>6,857,819</u>	<u>8,898,116</u>	<u>108,358,631</u>	<u>34,648,389</u>	<u>215,516,877</u>

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

## 5. FINANCE COSTS

	Six months ended 30 June	
	2012 <i>HK\$</i> (Unaudited)	2011 <i>HK\$</i> (Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	2,861,545	1,402,079
Bank charges	1,076,182	705,731
	<u>3,937,727</u>	<u>2,107,810</u>

## 6. LOSS BEFORE TAX

The Group's loss before tax is after charging:

	Six months ended 30 June	
	2012 <i>HK\$</i> (Unaudited)	2011 <i>HK\$</i> (Unaudited)
Depreciation	1,899,869	1,570,644
Research and development costs:		
– Deferred expenditure amortised	5,998,331	2,779,002
	<u>5,998,331</u>	<u>2,779,002</u>

## 7. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during that period. Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2011. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2012 <i>HK\$</i> (Unaudited)	2011 <i>HK\$</i> (Unaudited)
Current – Hong Kong:		
– Charge for the period	–	380,231
Deferred	(2,705,243)	(68,328)
	<u>(2,705,243)</u>	<u>(68,328)</u>
Total tax charge/(credit) for the period	<u>(2,705,243)</u>	<u>311,903</u>



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

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$18.3 million (2011: HK\$2.0 million), and the weighted average number of 622,500,000 ordinary shares in issue (2011: 622,500,000 ordinary shares).

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2012 and 2011 in respect of a dilution, as the impact of the potential dilutive ordinary shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented for the six months ended 30 June 2012 and 2011.

## 9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

## 10. TRADE RECEIVABLES

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

	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>HK\$</b>	<b>HK\$</b>
	<b>(Unaudited)</b>	(Audited)
Current	<b>31,817,971</b>	102,359,108
Less than 31 days	<b>3,006,450</b>	41,890,416
31 to 60 days	<b>6,431,244</b>	2,332,505
61 to 90 days	<b>364,615</b>	1,875,488
Over 90 days	<b>33,335,214</b>	5,286,780
	<b><u>74,955,494</u></b>	<b><u>153,744,297</u></b>

The credit period is generally 30 to 120 days.

As at 30 June 2012, the Group factored trade receivables of HK\$56,594,197 (31 December 2011: HK\$147,080,489) to a bank for cash. As the financial asset derecognition conditions as stipulated in HKAS 39 *Financial Instruments: Recognition and Measurement* have not been fulfilled, the Group's factored receivables are not decognised in their entirety. The Group continued to recognise factored trade receivables of HK\$4,526,079 (31 December 2011: HK\$13,547,771) and recognised their associated liabilities of HK\$4,610,970 (31 December 2011: HK\$13,801,872) in the consolidated statement of financial position as at 30 June 2012 to the extent of its continuing involvement in the transferred trade receivables under the factoring arrangements with the bank.

## 11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

An other receivable of HK\$21,120,203 (31 December 2011: HK\$17,016,081) and a trade receivable of HK\$9,089,273 (31 December 2011: HK\$10,626,741) as at 30 June 2012 were secured by an intellectual property of a customer of the Group and bore a monthly interest rate of 1.6%.

An other receivable of HK\$12,469,020 (31 December 2011: HK\$14,206,589) as at 30 June 2012 and a trade receivable of HK\$3,782,514 (31 December 2011: HK\$9,058,617) as at 30 June 2012 bore a monthly interest rate of 1.6%. The other receivable and trade receivable as at 30 June 2012 and 31 December 2011 were secured by certain inventories of a customer of the Group.

## 12. TRADE PAYABLES

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

	<b>30 June 2012 HK\$ (Unaudited)</b>	31 December 2011 HK\$ (Audited)
Within 30 days	<b>66,204,554</b>	87,452,320
31 to 60 days	<b>4,442,393</b>	40,032,027
Over 60 days	<b>11,586,425</b>	40,411,909
	<b><u>82,233,372</u></b>	<u>167,896,256</u>

The credit period is generally 30 to 120 days.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Company hereby presents the interim results for the six months ended 30 June 2012.

### **BUSINESS REVIEW**

During the six months ended 30 June 2012, revenue of the Group decreased by approximately 21.6% to HK\$169.0 million from HK\$215.5 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly attributable to the decrease in service income from the rendering of project development and management services by HK\$10.6 million, or approximately 80.4%, from HK\$13.2 million in the six months ended 30 June 2011 to HK\$2.6 million in the current period under review, which was mainly because customers had become more conservative to invest in research and development projects after the prolonged instability of the global economic condition. The revenue from sales of products was also decreased by 16.6% to HK\$166.4 million during the six months ended 30 June 2012 from HK\$199.6 million as recorded in the corresponding period in last year. These factors had led to the decrease in gross profit of the Group from HK\$28.8 million as recorded in the six months ended 30 June 2011 to HK\$12.2 million in the current period under review. In addition, as the gross profit margin from the service income is comparably higher, the decrease in such income during the current period under review caused a significant decline in the gross profit margin of the Group to approximately 7.2%, which represented a decrease of 6.2 percentage point as compared to the gross profit margin during the six months ended 30 June 2011.

In view of the above, the net loss of the Group for the six months ended 30 June 2012 had further increased to HK\$18.3 million, as compared to the net loss of HK\$2.0 million recorded in the corresponding period of the last fiscal year.

In terms of revenue breakdown, our revenue from sales of goods, royalty fees and income from rendering of services contributed approximately 98.4% (2011: 92.6%), 0.1% (2011: 1.3%) and 1.5% (2011: 6.1%), respectively. During the six months ended 30 June 2012, upon the requests of customers for coping with their marketing strategies, products delivered to Hong Kong decreased by approximately HK\$72.8 million to HK\$35.6 million, where the products delivered to the United States increased by approximately HK\$22.0 million to HK\$28.8 million.

## **FINANCIAL REVIEW**

### **Results of the Group**

#### ***Turnover***

During the six months ended 30 June 2012, the Group recorded a revenue of HK\$169.0 million, which represented a decrease of 21.6% as compared to the revenue amounted to HK\$215.5 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly resulted from the decrease in sales in products and service income from rendering of project development and management services from HK\$199.6 million and HK\$13.2 million in the six months ended 30 June 2011 to HK\$166.4 million and HK\$2.6 million in the current period, respectively.

#### ***Research and development costs***

The research and development costs of the Group during the six months ended 30 June 2012 amounted to HK\$4.0 million, which is comparable to the corresponding period in the last fiscal year.

#### ***Selling and distribution costs***

Selling and distribution costs of the Group decreased by approximately 8.9% from HK\$6.6 million during the six months ended 30 June 2011 to HK\$6.0 million in the current period under review, which was mainly attributable to the decrease in staff salaries and sales commissions for the salespersons as resulted from the decrease in revenue of the Group.

#### ***General and administrative expenses***

During the six months ended 30 June 2012, the general and administrative expenses of the Group increased by approximately 27.4% to HK\$24.7 million from HK\$19.4 million as recorded in the six months ended 30 June 2011. The increase was mainly due to the increase in office rental expense and redundancy costs for the layoff of staff in April 2012.

#### ***Finance costs***

The finance costs during the six months ended 30 June 2012 amounted to HK\$3.9 million, which represented an increase of approximately 86.8% as compared to the finance costs during the corresponding period in the last year amounted of HK\$2.1 million. The increase was primarily due to the increase in the utilisation of bank borrowings during the six months ended 30 June 2012 for material sourcing and the daily operations.

## ***Income tax***

During the six months ended 30 June 2012, the Group recorded a tax credit of approximately HK\$2.7 million, which was resulted from the loss incurred by the subsidiaries of the Company. The net tax expense incurred during the six months ended 30 June 2011 was due to the assessable income generated by one of the subsidiaries of the Company.

## **Liquidity and financial resources**

As at 30 June 2012, cash and cash equivalents of the Group amounted to approximately HK\$14.7 million (31 December 2011: HK\$40.4 million), and within which, about approximately HK\$455,000 (31 December 2011: HK\$172,000) is denominated in Renminbi.

As at 30 June 2012, the Group had bank borrowings amounting to HK\$91.3 million (31 December 2011: HK\$77.6 million) and among which, HK\$5.8 million (31 December 2011: HK\$7.4 million) is not repayable within one year. The bank borrowings carry interest rates ranging from 3.75% to 6.75%. Except for bank borrowings amounting to HK\$66.2 million as at 30 June 2012 (31 December 2011: HK\$62.6 million), which are denominated in the United States dollars, all the bank borrowings are denominated in Hong Kong dollars.

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

## **Gearing ratio**

	<b>As at 30 June 2012 HK\$ (Unaudited)</b>	<b>As at 31 December 2011 HK\$ (Audited)</b>
Total bank borrowings	<b>91,284,828</b>	77,576,045
Equity	<b><u>80,630,249</u></b>	<u>98,617,387</u>
	<b><u><u>171,915,077</u></u></b>	<u><u>176,193,432</u></u>
Gearing ratio (Total bank borrowings divided by the summation of total bank borrowings and equity)	<b><u><u>53.1%</u></u></b>	<u><u>44.0%</u></u>

As at 30 June 2012, the maturity profile of the bank borrowings of the Group falling due within one year, in the second year and the third to fifth years, inclusive, amounted to HK\$85.5 million (31 December 2011: HK\$70.0 million), HK\$3.4 million (31 December 2011: HK\$3.5 million) and HK\$2.4 million (31 December 2011: HK\$4.1 million).

### **Capital structure**

The capital of the Group comprises only ordinary shares. As at 31 December 2011 and 30 June 2012, the total number of the ordinary shares of the Group was 622,500,000 shares.

### **Significant investments**

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

### **Material acquisitions and disposals**

During the six months ended 30 June 2012, there was no material acquisition or disposal of subsidiaries and affiliated companies by the Group.

### **Charges on the Group's assets**

As at 30 June 2012, certain of the Group's bank deposits of HK\$16.2 million (31 December 2011: HK\$17.0 million) were pledged to secure certain banking facilities granted to the Group.

### **Foreign currency exposure**

The foreign currency exposure of the Group primarily arise from revenue or income generated, cost or expenses incurred, and certain bank and other borrowings denominated in currencies other than the Group's operating units' functional currency. For the Group's operating units that have the United States dollar as their functional currency, their foreign currency transactions and the units' monetary assets and liabilities denominated in foreign currencies that were retranslated at the functional currency rates of exchange ruling as at 30 June 2012 were mainly denominated in Hong Kong dollars. As the United States dollar ("US\$") is pegged to the Hong Kong dollar ("HK\$") within a narrow band, the Group does not expect any significant movements in the US\$/HK\$ exchange rate. Accordingly, we consider the Group's foreign currency risk exposure to be low.

### **Contingent liabilities**

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

## Commitments

### (i) Operating lease arrangements

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

	<b>As at 30 June 2012 HK\$ (Unaudited)</b>	As at 31 December 2011 HK\$ (Audited)
Within one year	<b>6,924,041</b>	7,092,890
In the second to fifth years, inclusive	<b><u>4,066,199</u></b>	<u>7,433,413</u>
	<b><u><u>10,990,240</u></u></b>	<u><u>14,526,303</u></u>

### (ii) Capital commitments

As at the end of the reporting period, the Group did not have any significant capital commitment (31 December 2011: Nil).

## OUTLOOK

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

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

Notwithstanding the fact that the Group is exploring new customers for new products and deploying new revenue stream, the Group had adopted several cost saving measures since July 2012 given that the recovery of global economic recovery is still uncertain. The cost saving measures included but not limited to (i) streamline the operation flows and focus on core product development, which reduced our work force by approximately 18%; (ii) centralised our employees in Hong Kong from two office premises to one office premise; and (iii) tightening the cost control policies on various expenditures such as travelling allowances and utility expenses.

Looking forward to the second half of 2012, the Group believes that after implementing the above cost saving measures and continuing to explore new markets on our products, we can cope with the upcoming challenges and grasp opportunities that come along when the market recovers. With the support of our strong research and development expertise, the Group will continue its endeavours to create higher value and return for its shareholder.

## **EVENT AFTER REPORTING PERIOD**

On 20 August 2012, Perception Digital Limited (“PDL”), a wholly-owned subsidiary of the Company and as the sublessee, and Welleader Group Limited (“Welleader”), as the sublessor, entered into a termination agreement (“Termination Agreement”) pursuant to which PDL and Welleader agreed to terminate a sublease agreement dated 28 January 2011 for leasing an office premise located at 21st floor, Fortis Tower, 77-79 Gloucester Road, Wanchai, Hong Kong.

Welleader is a company wholly-owned by Ms. Loh, Jiah Yee Katherine (“Ms. Loh”), the spouse of Dr. Lau, Jack (“Dr. Lau”), an executive Director and chief executive officer, and Ms. Loh is also one of the controlling shareholders of the Company. Hence, Welleader is an associate of Dr. Lau and is accordingly a connected person of the Company. The transaction under the Termination Agreement constituted a connected transaction for the Company under Chapter 14A of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited. Further details of the transaction are set out in an announcement of the Company dated 20 August 2012.

Accordingly, the principal place of business of the Company in Hong Kong was changed to Unit B, 18th floor, Fortis Tower, 77-79 Gloucester Road, Wanchai, Hong Kong with effect from 21 August 2012.

## **DIVIDENDS**

The Board does not recommend the payment of any dividend for the six months ended 30 June 2012 (2011: Nil).



## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group employed a total of 238 employees. Total staff costs, including directors emoluments, amounted to approximately HK\$32.8 million for the six months ended 30 June 2012. The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonuses, share options, medical insurance, provident fund contribution, education subsidy and training to its employees.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules adopted by the Company, were as follows:

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

Name of Director	Capacity/ Notes	Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Dr. Lau, Jack ("Dr. Lau")	(a)	Interest of spouse	182,566,037	29.33%
Mr. Tao Hong Ming ("Mr. Tao")		Beneficial owner	300,000	0.05%
		Share options	750,000	0.12%
			<u>1,050,000</u>	<u>0.17%</u>
Prof. Cheng, Shu Kwan Roger ("Prof. Cheng")	(b)	Interest of controlled corporation	2,976,655	0.48%
Prof. Tsui, Chi Ying ("Prof. Tsui")	(c)	Interest of controlled corporation	<u>11,903,210</u>	<u>1.91%</u>
			<u>198,495,902</u>	<u>31.89%</u>

*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 all 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 30 June 2012, none of the Directors or chief executive of the Company or their respective associates had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2012, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company, being 5% or more of the total issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO:

### Long position in the Shares:

Name of Substantial Shareholders	Notes	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	(a)	Beneficial owner	53,828,697	8.65%
		Interest of controlled corporation	125,592,340	20.17%
			<u>179,421,037</u>	<u>28.82%</u>
Sea Progress	(b)	Beneficial owner	179,421,037	28.82%
Ms. Loh	(c)	Interest of controlled corporation	179,421,037	28.82%
		Beneficial owner	3,145,000	0.51%
			<u>182,566,037</u>	<u>29.33%</u>
Manyi Holdings Limited ("Manyi")		Beneficial owner	140,482,322	22.57%
Dr. Wu Po Him, Philip ("Dr. Wu")	(d)	Interest of controlled corporation	140,482,322	22.57%
		Beneficial owner	1,599,142	0.25%
			<u>142,081,464</u>	<u>22.82%</u>
Notable Success Investments Limited ("Notable Success")	(e)	Beneficial owner	54,196,943	8.71%
Successful Link Limited ("Successful Link")	(e)	Interest of controlled corporation	54,196,943	8.71%
Paulo Lam ("Mr. Lam")		Interest of controlled corporation	<u>54,196,943</u>	<u>8.71%</u>

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

## **DIRECTORS’ RIGHT TO ACQUIRE SECURITIES**

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

## **SHARE OPTION SCHEME**

As at 30 June 2012, share options to subscribe for an aggregate of 10,480,000 ordinary shares of the Company were granted to certain employees and consultants of the Group pursuant to the share option scheme of the Company adopted on 27 November 2009 (the “Scheme”). Details of the Scheme were disclosed in the 2011 annual report of the Company.

Details of the share options outstanding as at 30 June 2012 under the Scheme are as follows:

Name or category of participant	Number of share options				At 30 Jun 2012	Exercise Price (HK\$)	Date of grant	Exercise Period
	At 1 Jan 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period				
<b>Director</b>								
Mr. Tao	1,000,000		–	(250,000)	750,000	HK\$0.7	26-3-2010	(a)
<b>Continuous contract employees</b>	11,400,000	–	–	(3,870,000)	7,530,000	HK\$0.7	26-3-2010	(a)
<b>Other participate</b>						HK\$0.7	26-3-2010	(a)
Consultants	1,600,000	–	–	(400,000)	1,200,000	HK\$0.7	26-3-2010	(a)
A consultant	1,000,000	–	–	–	1,000,000	HK\$0.348	31-8-2011	(b)
	<u>15,000,000</u>	<u>–</u>	<u>–</u>	<u>(4,520,000)</u>	<u>10,480,000</u>			

Notes:

- (a) Of the 9,480,000 share options, 3,160,000 share options will be exercisable during the period from 26 March 2012 to 25 March 2013 and 6,320,000 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 the 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.

## SHARE OPTIONS UNDER A SUPPLY CHAIN MANAGEMENT AGREEMENT

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

Details of the share options outstanding as at 30 June 2012 under the Agreement are as follows:

At 1 Jan 2012	Granted during the period	Exercised during the period	Number of share options		Exercise Price* (HK\$)	Date of grant	Exercise Period
			Cancelled/ lapsed during the period	At 30 Jun 2012			
15,500,000	-	-	-	15,500,000	HK\$0.38	11-8-2011	11 November 2011 to 10 August 2016
46,750,000 <sup>^</sup>	-	-	-	46,750,000	HK\$0.38	11-8-2011	11 August 2012 to 10 August 2016
<u>62,250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,250,000</u>			

Notes:

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code for dealing in securities of the Company by Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2012.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

## CORPORATE GOVERNANCE

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

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

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

## **AUDIT COMMITTEE**

The Company established an audit committee in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Dr. Lam Lee, Kiu Yue Alice Piera, Prof. Chin Tai Hong, Roland and Mr. Shu, Wa Tung Laurence. The committee is chaired by Mr. Shu, Wa Tung Laurence. The primary duties of the audit committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The unaudited financial statements of the Group for the six months ended 30 June 2012 have been reviewed by the audit committee.

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

Hong Kong, 31 August 2012

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