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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 2014

The board of Directors (the “Board”) hereby presents the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2014 together with the comparative unaudited figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	30 June 2014 HK\$ (Unaudited)	31 December 2013 HK\$ (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		2,517,993	3,835,136
Deferred development costs		12,139,063	18,123,387
Long term deposits		172,228	172,228
Deferred tax assets		2,406,665	2,406,665
		<u>17,235,949</u>	<u>24,537,416</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		4,461,093	4,188,240
Trade receivables	10	35,087,855	85,489,602
Prepayments, deposits and other receivables		8,166,933	8,599,496
Pledged deposit		3,923,920	6,018,550
Cash and bank balances		49,676,423	26,139,149
		<u>101,316,224</u>	<u>130,435,037</u>
Total current assets			
CURRENT LIABILITIES			
Trade payables	11	34,814,289	85,274,587
Other payables and accruals		9,073,777	10,846,371
Interest-bearing other borrowing		–	31,330,795
Tax payable		846,039	868,537
Provision		–	672,700
		<u>44,734,105</u>	<u>128,992,990</u>
Total current liabilities			
NET CURRENT ASSETS		<u>56,582,119</u>	<u>1,442,047</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>73,818,068</u>	<u>25,979,463</u>
NON-CURRENT LIABILITIES			
Interest-bearing other borrowing		6,600,000	12,300,000
		<u>6,600,000</u>	<u>12,300,000</u>
Total non-current liabilities			
Net assets		<u>67,218,068</u>	<u>13,679,463</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	24,651,000	112,050,000
Reserves		42,567,068	(98,370,537)
		<u>67,218,068</u>	<u>13,679,463</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Issued capital HK\$	Share premium account HK\$	Capital reserve HK\$	Warrant reserve HK\$	Share option reserve HK\$	Exchange fluctuation reserve HK\$	Accumulated loss HK\$	Total Equity HK\$
At 1 January 2013 (unaudited)	62,250,000	43,490,307	43,823,276	7,048,243	3,093,539	2,549,544	(153,461,375)	8,793,534
Issue of share	31,125,000	8,901,750	-	-	-	-	-	40,026,750
Share issue cost	-	(1,770,417)	-	-	-	-	-	(1,770,417)
Total comprehensive loss for the period	-	-	-	-	-	153,294	(17,311,676)	(17,158,382)
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	(430,850)	-	430,850	-
Equity-based share option arrangement	-	-	-	-	(345,571)	-	-	(345,571)
At 30 June 2013 (unaudited)	<u>93,375,000</u>	<u>50,621,640</u>	<u>43,823,276</u>	<u>7,048,243</u>	<u>2,317,118</u>	<u>2,702,838</u>	<u>(170,342,201)</u>	<u>29,545,914</u>
At 1 January 2014 (unaudited)	112,050,000	64,031,889	43,823,276	7,048,243	1,859,529	2,785,048	(217,918,522)	13,679,463
Capital reduction	(100,845,000)	-	-	-	-	-	100,845,000	-
Issue of share	13,446,000	53,784,000	-	-	-	-	-	67,230,000
Share issue cost	-	(2,844,146)	-	-	-	-	-	(2,844,146)
Total comprehensive loss for the period	-	-	-	-	-	(229,242)	(10,618,007)	(10,847,249)
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	(54,429)	-	54,429	-
At 30 June 2014 (unaudited)	<u>24,651,000</u>	<u>114,971,743</u>	<u>43,823,276</u>	<u>7,048,243</u>	<u>1,805,100</u>	<u>2,555,806</u>	<u>(127,637,100)</u>	<u>67,218,068</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

For the six months ended 30 June 2014

1. CORPORATE INFORMATION

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

During the six months ended 30 June 2014, the Group was primarily involved in the research, design and development and sale of digital signal processing (“DSP”) based consumer devices/platforms, including embedded firmware; the provision of solutions/services to customers for their DSP-based consumer electronic devices/platforms; and the trading of electronic components.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group’s unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars. The accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2013.

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

Issue of new and revised Hong Kong Financial Reporting Standards

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

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

3. REVENUE

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

The following table sets out a breakdown of our revenue:

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following table presents revenue from external customers for the six months ended 30 June 2014 and 2013 by geographical areas.

	Europe	United States of America	Mainland China	Hong Kong	Others	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Six months ended 30 June 2014						
Revenue from external customers (Unaudited)	<u>765,753</u>	<u>8,131,635</u>	<u>7,493,993</u>	<u>420,426</u>	<u>354,756</u>	<u>17,166,563</u>
Six months ended 30 June 2013						
Revenue from external customers (Unaudited)	<u>34,401,261</u>	<u>27,087,738</u>	<u>5,248,855</u>	<u>8,830,184</u>	<u>18,831,087</u>	<u>94,399,125</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, which is based on the locations where the customers are domiciled/located.

5. FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Interest on bank loans, overdrafts and other loan wholly repayable within five years	18,129	3,042,330
Bank charges	40,734	648,621
	<u>58,863</u>	<u>3,690,951</u>

6. LOSS BEFORE TAX

The Group's loss before tax is after charging:

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

7. INCOME TAX

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

The Group's subsidiary established in the PRC had obtained the status of National High-Tech Enterprise and, accordingly, is entitled to a lower PRC corporate income tax rate of 15% for the six months ended 30 June 2014 and 2013.

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$10.6 million (2013: HK\$17.3 million), and the weighted average number of 2,263,410,000 ordinary shares in issue (2013: 933,750,000 ordinary shares).

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2014 and 2013 in respect of a dilution, as the impact of the potential dilutive ordinary shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented for the six months ended 30 June 2014 and 2013.

9. DIVIDEND

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

11. TRADE PAYABLES

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

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

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

12. SHARE CAPITAL

Shares:

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

Notes:

- 1) On 20 August 2013, the Company issued a circular, pursuant to which, the Company proposed (i) a capital reduction to reduce each of the paid-up capital of the Company from HK\$0.1 to HK\$0.01 per share by cancelling paid-up capital of HK\$0.09 per share (the “Capital Reduction”) and the credit arising from the Capital Reduction be applied towards the cancelling of the accumulated deficit of the Company; and (ii) a sub-division to sub-divide each of the authorised but unissued ordinary shares of the Company with a par value of HK\$0.01 each (the “Sub-division”). On 20 January 2014, the Company announced that all the conditions precedent for the implementation of the Capital Reduction and Sub-division had been fulfilled and the Capital Reduction and Sub-division became effective on 20 January 2014 (after market close) (Hong Kong time).
- 2) On 3 January 2014, the Company issued a prospectus pursuant to which, the Company proposed an open offer (the “Open Offer”) to issue 1,344,600,000 ordinary shares of the Company (the “Offer Shares”) to its existing shareholders on the basis of six offer shares for every five existing shares at a subscription price of HK\$0.05 per share. The Open Offer was conditional upon, among other things, the completion of the Capital Reduction as mentioned above. Pursuant to an announcement of the Company dated 24 January 2014, the Open Offer became unconditional and the dealing of the Offer Shares was commenced on 28 January 2014.

Warrants:

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

As a result of the completion of the open offer in March 2013 and the Open Offer, the subscription price of the outstanding warrants was adjusted to HK\$0.14. The exercise in full of the warrants would, under the capital structure of the Company as at 30 June 2014, result in the issue of 120,053,571 additional ordinary shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company hereby presents the interim results for the six months ended 30 June 2014.

BUSINESS REVIEW

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

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

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

In terms of revenue breakdown, our revenue from sales of goods, rendering of service income and royalty fees contributed approximately 48.3% (2013: 97.3%), 51.7% (2013: 2.3%) and nil (2013: 0.4%), respectively.

FINANCIAL REVIEW

Results of the Group

Turnover

During the six months ended 30 June 2014, the Group recorded a revenue of HK\$17.2 million, which represented a decrease of 81.8% as compared to the revenue amounted to HK\$94.4 million as recorded in the corresponding period in the last fiscal year. The decrease was mainly resulted from the decrease in sales in products from HK\$91.9 million in the six months ended 30 June 2013 to HK\$8.3 million in the current period under review, respectively, due to the change of product mix and the cease of business with one of the largest customers since 2013 December as mentioned above.

Other income and gain

Other income and gain of the Group increased by 1,019.1%, from approximately HK\$0.4 million for the corresponding period in the last fiscal year to approximately HK\$5.0 million for the six months ended 30 June 2014. The significant increase was mainly due to the waiver of the interests recognised in previous years, amounted to approximately HK\$3.4 million, on certain borrowings as granted by the respective lenders.

Research and development costs

The research and development costs of the Group increased by 49.2% from HK\$1.7 million for the corresponding period in the last fiscal year to HK\$2.6 million for the six months ended 30 June 2014. The increase was mainly due to less development costs were capitalised from the research and development costs in the six months ended 30 June 2014.

Selling and distribution costs

Selling and distribution costs of the Group decreased by approximately 28.5% from HK\$8.1 million during the six months ended 30 June 2013 to HK\$5.8 million in the current period under review, primarily resulting from the Cost-saving Measures adopted by the Group since 2013.

General and administrative expenses

During the six months ended 30 June 2014, the general and administrative expenses of the Group decreased by approximately 31.9% to HK\$7.5 million from HK\$11.0 million as recorded in the six months ended 30 June 2013. The decrease was mainly resulted from the Cost-saving Measures which had been implemented since 2013.

Finance costs

The finance costs during the six months ended 30 June 2014 amounted to approximately HK\$59,000, which decreased substantially as compared to the finance costs of HK\$3.7 million as recorded during the corresponding period in the last fiscal year, as all the bank borrowings were settled in late 2013.

Income tax

No provision for taxation was provided during the six months ended 30 June 2014 and 2013 as there was no assessable profits generated in those periods.

Other expenses

Other expenses recognised during the six months ended 30 June 2014 represented the loss on early repayment of an other borrowing in February 2014.

Liquidity and financial resources

As at 30 June 2014, cash and cash equivalents of the Group amounted to approximately HK\$49.7 million (31 December 2013: HK\$26.1 million), and within which, approximately HK\$1.0 million (31 December 2013: HK\$499,000) is denominated in Renminbi.

As at 30 June 2014, the Group had other borrowing amounting to HK\$6.6 million (31 December 2013: HK\$43.6 million) which was fully settled subsequent to 30 June 2014.

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

Gearing ratio

	As at 30 June 2014 HK\$ (Unaudited)	As at 31 December 2013 HK\$ (Audited)
Total other borrowings	6,600,000	43,630,795
Equity	<u>67,218,068</u>	<u>13,679,463</u>
	<u><u>73,818,068</u></u>	<u><u>57,310,258</u></u>
Gearing ratio (Total other borrowings divided by the summation of total other borrowings and equity)	<u><u>8.9%</u></u>	<u><u>76.1%</u></u>

The significant decrease in the gearing ratio was due to the increase in equity from the Open Offer and the repayment of other borrowings during the six months ended 30 June 2014.

As at 30 June 2014, the maturity profile of the bank borrowings of the Group falling due within one year and in the second year amounted to HK\$6.6 million (31 December 2013: HK\$31.3 million) and Nil (31 December 2013: HK\$12.3 million), respectively.

Capital structure

The capital of the Group comprises only ordinary shares. As at 31 December 2013 and 30 June 2014, the total number of the issued ordinary shares of the Group was 1,120,500,000 shares and 2,465,100,000 shares respectively.

Significant investments

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

Material acquisitions and disposals

During the six months ended 30 June 2014, 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 2014, certain of the Group's banking facilities were secured by the pledge of certain of the Group's time deposits of approximately HK\$3.9 million (31 December 2013: HK\$6.0 million).

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 2014 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

(a) As sublessor

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

As at 30 June 2014, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	As at 30 June 2014 HK\$ (Unaudited)	As at 31 December 2013 HK\$ (Audited)
Within one year	<u>389,737</u>	<u>54,008</u>

(b) 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:

	As at 30 June 2014 HK\$ (Unaudited)	As at 31 December 2013 HK\$ (Audited)
Within one year	955,461	473,244
In the second to fifth years, inclusive	<u>379,634</u>	<u>492,995</u>
	<u>1,335,095</u>	<u>966,239</u>

(ii) Capital commitments

As at the end of the reporting period, the Group did not have any significant capital commitment (31 December 2013: Nil).

OUTLOOK

The Group successfully narrowed down the net loss in 2013 and the first half of 2014 by focusing on the sale of products with high profit margin such as 3BaysGSA and focusing on the provision of project management services, and implementation of various Cost-saving Measures and other value-added measures. The Group will continue this business strategy and looking forward, the Group will allocate resources on enhancing the functionality of 3BaysGSA and developing other sports activity analysers by utilising its unique sensor technology. With the fund raised in the Open Offer and the Share Subscription, the management believes that 2014 will be a year of further improvement for the Group.

Following the completion of the share subscription and the share purchase by Nat-Ace Pharmaceutical Ltd. (“Nat-Ace”) on 9 July 2014, Nat-Ace became the controlling shareholder of the Company. As previously disclosed in the offer document issued by Nat-Ace on 16 July 2014, Nat-Ace intends to continue the current business operation of the Group and at the same time conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group, which may include acquisitions or investments in assets and/or businesses or cooperation with business partners should appropriate opportunities arise. Meanwhile, no plan for development of business of the Group has been formulated and the Company will make announcement to update the shareholders and potential investor of any such plan as and when appropriate.

DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2014 (2013: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group employed a total of 23 employees. Total staff costs, including directors emoluments, amounted to approximately HK\$3.7 million for the six months ended 30 June 2014. 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, medical insurance, provident fund contribution, education subsidy and training to its employees.

EVENTS AFTER THE BALANCE SHEET DATE

On 26 April 2014, the Company entered into a subscription agreement (the “Subscription Agreement”) with Nat-Ace pursuant to which the Company agreed to issue, and Nat-Ace agreed to subscribe for 616,275,000 shares of the Company in cash at a price of HK\$0.168 per share (the “Share Subscription”). On the same date, Nat-Ace entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with four then shareholders of the Company (the “Vendors”) pursuant to which Nat-Ace agreed to purchase, and the Vendors agreed to sell an aggregate of 1,010,438,121 shares of the Company at a price of HK\$0.168 (the “Share Purchase”).

Subsequent to the balance sheet date, on 9 July 2014, the Company and Nat-Ace jointly announced that the conditions precedent to the completion of the Subscription Agreement and Sale and Purchase Agreement had been fulfilled and the completion of the Subscription Agreement and Sale and Purchase Agreement took place on 9 July 2014. As immediately after the Share Purchase and the Share Subscription, Nat-Ace and the parties acting in concert with it are interested in 1,626,713,121 Shares, representing approximately 52.79% of the entire issued share capital of the Company, CCB International Capital Limited had made an unconditional mandatory cash offer (the “Cash Offer”) on behalf of Nat-Ace to acquire all the 1,454,661,879 Shares (the “Disinterested Shares”) at an offer price of HK\$0.168. An offer document containing, among other things, details of the terms of the Cash Offer was despatched to the shareholders of the Company on 16 July 2014. On the same date, the Company and Nat-Ace jointly announced that the appointment of (i) each of Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jiangyuan and Mr. Gui Bin as an executive director; (ii) Mr. Wang Yongbin as a non-executive director; and (iii) each of Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest as an independent non-executive director had been effective from 16 July 2014.

On 30 July 2014, the Company and Nat-Ace jointly announced that in accordance with Rule 8.4 of the Takeovers Code, the Company is required to despatch an offeree board circular (the “Response Document”) containing, among other things, the letter from the Board, the recommendations from the Independent Board Committee to the holders of the Disinterested Shares and the holder of the Options in relation to the Cash Offer and the advice and recommendations from the independent financial adviser to the independent board committee, the holders of the Disinterested Shares and the holder of the Options within 14 days of the publication of the Offer Document, being on or before 30 July 2014. However, as additional time is required to compile and ascertain the relevant information to be included in the Response Document, it is expected that the date of despatch of the Response Document would be on or before 15 August 2014 and accordingly, the Cash Offer will remain open until the 14th day after the despatch of the Response Document or 29 August 2014, whichever is earlier.

Further details of the above transactions are set out in the announcements of the Company dated 8 May 2014, 9 July 2014, 16 July 2014 and 30 July 2014.

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

As at 30 June 2014, 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/Nature of interest	Number of Shares interested	Percentage of the Company's issued share capital
Keen Platinum Limited (<i>Note</i>)	Interest of controlled corporation	143,971,300	5.84%
Mr. Lee Rabi	Personal interest	<u>270,000</u>	<u>0.01%</u>
		<u>144,241,300</u>	<u>5.85%</u>

Note: Keen Platinum Limited is wholly-owned by Mr. Mung Wai Ming, an executive Director.

Save as disclosed above, as at 30 June 2014, 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 2014, 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 10% 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 Management Limited ("Swanland")		Beneficial owner	414,454,722	16.81%
Masteray Limited ("Masteray")	(a)	Beneficial owner	177,634,699	7.21%
		Interest of controlled corporation	414,454,722	16.81%
			592,089,421	24.02%
Sea Progress Limited ("Sea Progress")	(b)	Beneficial owner	592,089,421	24.02%
Ms. Loh, Jiah Yee Katherine ("Ms. Loh")	(c)	Interest of controlled corporation	592,089,421	24.02%
		Beneficial owner	10,377,400	0.42%
			602,466,821	24.44%
Capital Fame Technology Limited		Beneficial owner	264,000,000	10.71%
Mr. Chan Yuen Ming ("Mr. Chan")	(d)	Interest of controlled corporation	264,000,000	10.71%

Notes:

- (a) Masteray is interested in 85.2% 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 Trust Limited ("Credit Suisse").
- (c) Ms. Loh is the founder of a discretionary trust holding 592,089,421 Shares by Credit Suisse and hence is deemed to be interested in all the Shares held thereof.
- (d) Mr. Chan is the sole beneficial owner of Capital Fame and hence is deemed to be interested in all the Shares held by Capital Fame.

Save as disclosed above, as at 30 June 2014, 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 2014, no share option was granted under the share option scheme of the Company adopted on 27 November 2009 (the “Scheme”). Details of the Scheme were disclosed in the 2013 annual report of the Company.

Details of the movement of the share options during the six months ended 30 June 2014 under the Scheme are as follows:

Name or category of participant	Number of share options				Before completion of the Open Offer Exercise price (HK\$)	After completion of the Open Offer Exercise price (HK\$)	Date of grant	Exercise Period
	At 1 Jan 2014	Adjustment from the Open Offer	Lapsed during the period	At 30 Jun 2014				
Continuous contract employees	986,349	497,711	(1,484,060)	–	HK\$0.646	HK\$0.429	26-3-2010	(Note)
Other participate								
Consultants	867,120	437,549	(1,304,669)	–	HK\$0.646	HK\$0.429	26-3-2010	(Note)
	<u>1,853,469</u>	<u>935,260</u>	<u>(2,788,729)</u>	<u>–</u>				

Note:

All of the 2,788,729 share options were exercisable during the period from 26 March 2013 to 25 March 2014 and were lapsed on 26 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.

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 2013 annual report of the Company.

Details of the share options outstanding as at 30 June 2014 under the Agreement are as follows:

<u>Number of share options</u>						
At 1 Jan 2014	Adjustment from the Open Offer	At 30 Jun 2014	Before completion of the Open Offer Exercise price (HK\$)	After completion of the Open Offer Exercise price (HK\$)	Date of grant	Exercise Period
16,800,450	8,477,507	25,277,957	HK\$0.351	HK\$0.233	11-8-2011	11 November 2011 to 10 August 2016
50,672,325	25,569,255	76,241,580	HK\$0.351	HK\$0.233	11-8-2011	11 August 2012 to 10 August 2016
<u>67,472,775</u>	<u>34,046,762</u>	<u>101,519,537</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.
- ^ 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 2014.

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 2014.

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.

AUDIT COMMITTEE

The Company established an audit committee in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Ms. Zhou Jing, Mr. Ng Wai Hung and Mr. William Keith Jacobsen. The committee is chaired by Ms. Zhou Jing. The primary duties of the audit committee are to supervise the internal control policies, the financial reporting systems and procedures of the Company, to review the financial statements and reports of the Group, and to review the terms of engagement and scope of audit work of the external auditors. The unaudited financial statements of the Group for the six months ended 30 June 2014 have been reviewed by the audit committee.

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

Hong Kong, 11 August 2014

As at the date of this announcement, the Board comprises (i) seven executive Directors, namely Mr. Mung Wai Ming, Ms. Liu Yee Nee, Mr. Lee Rabi, Ms. Deng Shufen, Mr. Dai Yumin, Ms. Liu Jianguan and Mr. Gui Bin; (ii) one non-executive Director, namely, Mr. Wang Yongbin; and (iii) six independent non-executive Directors, namely Mr. Ng Wai Hung, Mr. William Keith Jacobsen, Ms. Zhou Jing, Mr. Fang Jun, Mr. Zhao Xianming and Mr. Wong Yiu Kit, Ernest.